EXECUTIVE **18 NOVEMBER 2024**

SUBJECT:	**SETTING THE 2025/26 BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY 2025/26 – 2029/30**
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1. Purpose of Report

1.1 This report updates the Executive on the latest Medium Term Financial Strategy (MTFS) position for the Council, including; the challenges in preparing for the 2025/26 and future years budget, setting out the parameters within which the Council will prepare these budgets, and confirms the Council's approach to development of the budget and MTFS.

1.2 Included in the report is an update on the current economic position and developments in national policy, specifically the Government's first Budget and Spending Review, which gives rise to specific impacts for local government funding. This, along with cost and demand pressures and other emerging issues, will inform the development of the MTFS.

2. Executive Summary

2.1 The Council's new, emerging, Vision 2030 and it's five strategic priorities will drive the medium-term financial planning process, with changes in resource allocation determined in accordance with policies and priorities. The MTFS provides the framework for the development of annual budgets in line with the aims of the Council's strategy and priorities.

2.2 The refreshed MTFS will include financial projections for the five-year financial planning period through to 2029/30. It will set out the financial parameters within which the Council is required to work and the recommended approach to addressing the financial challenges the Council faces to develop a balanced, sustainable, budget and set Council Tax and Housing Rents for 2025/26.

2.3 The refresh of MTFS needs to be seen in the context of a high level of financial uncertainty for the Council in relation to future Government funding levels. Significant changes to future public sector departmental spending through the Spending Review 2025, the allocation of this funding to local government through reforms to the distribution methodologies, and the potential implementation of a Business Rates Reset, are as yet all unknown but all of which have the potential to fundamentally affect the Council's funding trajectory and MTFS.

2.4 Furthermore, the Council continues to face budget pressures due to changes in the of use, and demand for, services, as well as increased costs and reduced income streams.

2.5 As a result of these factors, the Council, and local government as a whole, are yet again having to update their medium-term financial strategies in an uncertain environment. It is a long time since the Council had any stability and certainty beyond a one-year timeframe, and the development of the latest MTFS looks set to continue this tradition. This continues to make financial planning, and the subsequent impact on service delivery, in this climate extremely challenging.

2.6 Against this backdrop of uncertainty, this report sets out the current financial planning assumptions that will form the basis of the MTFS refresh. However, due to the level of uncertainty it is difficult to make a full, definitive and comprehensive assessment of the ongoing financial impact of some of these issues. As such, the figures in this report are based upon best estimates and forecasts and will therefore be subject to change as the budget process develops, and will continue to change into the new financial year. This medium-term financial planning process is though critical to ensuring that the Council has an understanding of the likely level of available resources and the potential costs of delivering services, identifying budget shortfalls at the earliest opportunity to ensure appropriate action can be taken in advance.

2.7 Based on the current financial planning assumptions it is estimated that the Council will not need to make any significant increases in the level of savings targets that underpin the existing MTFS. The assumption that reductions in the annual net cost base of the General Fund of c£1.75m by 2027/28, if it is to remain sustainable in the medium term, will remain. The Council has a strong track record of managing its finances, having delivered annual revenue reductions of over £10.5m over the last 10+ years. But, £1.75m is a significant amount in comparison to the General Fund budget and with each year the challenge gets much harder.

2.8 Careful and prudent financial management will continue to be required to ensure that the Council maintains a robust and sustainable financial position and is able to respond to the financial risks that it faces. The MTFS needs to remain flexible, the Council's reserves resilient and the sound track record of delivering savings needs to be sustained, whilst ensuring that resources are directed towards the new Vision 2030.

3. Background

Economic Climate

3.1 The most recent major fiscal event was the new Government's Autumn Budget and Spending Review 2024, announced in October. This was presented alongside the Office of Budget Responsibility's (OBR) new set of Economic and Fiscal Outlook forecasts. Against a broadly unchanged economic and fiscal backdrop since March, the Budget delivers a large, sustained, increase in spending, taxation, and borrowing. Budget policies increase spending by almost £70bn a year over the next five years, of which two-thirds goes on current and one-third on capital spending. Half of the increase in spending is funded through an increase in taxes, mainly on employer payrolls, on assets, and through greater tax compliance. These raise £36bn a year in additional revenue and push the tax take to a historic high of 38% of GDP by 2029/30. The other half of the increase in spending is funded by a £32bn a year increase in borrowing, one of the largest fiscal loosening's of any fiscal event in recent decades. The Government's decisions in the Autumn Budget 2024 are intended to boost investment and drive a higher level of output in the long run.

3.2 Despite the package of measures announced by the Chancellor, aimed at driving growth, the OBR judges that these will only temporarily boost output in the near term but will leave GDP largely unchanged in five years. Having stagnated last year, the UK economy showed strong growth in the first two quarter of this year, with GDP increasing by 0.7% in quarter 1 and by 0.5% in quarter 2. Despite this initial strong growth, the economy is only expected to grow by just over 1% in 2024, rising to 2% in 2025, before falling to around 1.5%, slightly below its estimated potential growth rate of 1.66% per cent, over the remainder of the forecast period.

3.3 In terms of inflation, CPI is now normalising after inflationary shocks resulted in it peaking at a 41-year high of 11.1% in October 2022 and spending 33 consecutive months above target. It has continued to fall back during the first two quarters of 2024, starting the year at 4%, reducing to 2% in June, in line with the Bank of England's target rate. Prices slightly increased again in July, up to 2.2%, remaining at that level in August before dropping, unexpectedly by 0.5%, to 1.7% in September, the lowest rate in 3.5 years. This now means that inflation is below the Bank of England's 2% target, which should pave the way for interest rates to be cut further. However, with household energy bills set to increase again from October and the impact of policies announced in the Budget, it is likely that the September CPI rate will be a dip with inflation likely to rise again in the near term by around 0.5%. This will result in a projected rise to 2.6% in 2025. Despite this potential for a short-term rise, the OBR expects CPI to gradually fall back in 2025, remaining close to the 2% target throughout the remaining 3-years of the OBR forecast.

3.4 After 14 consecutive increases in the Bank of England base rate, with the rate, reaching a 16-year high at 5.25%, the first drop in more than 4-years, to 5%, was voted by the Bank's Monetary Policy Committee (MPC) in August 2024. Announcing the decision to hold rates in September, which had been widely predicted, the Bank of England's Governor said slowing inflation meant the Bank should be able to cut interest rates gradually over the upcoming months. With inflation falling lower than most economists expected in September, the markets were subsequently anticipating an interest rate cut of 0.25% when the MPC next meets on 7th November, with the potential for a second rate cut in December. However, the OBR forecast anticipates that the Bank of England will respond to the Budget policies by keeping rates higher for longer, with optimism of two quick interest rates cuts significantly reducing. The OBR's mid-term forecast anticipates that rates are expected to fall to 3.5% in 2028/29.

Public Sector and Local Government

3.5 Public Sector Expenditure

As set out in paragraph 3.1, the Autumn Budget and Spending Review 2024 announced an increase in public sector expenditure of over £70bn p.a. over the next 5-year period (this includes departmental spending and annually managed expenditure). In total public spending is set to increase as a share of the economy this year from 44.9% to 45.3% of GDP. It then declines gradually thereafter, settling at 44.5% of GDP by the end of the decade, a level that is almost 5% higher than before the pandemic and an average of 1.8% of GDP a year higher than forecast in March based on the plans of the former Government.

3.6 In terms of departmental spending, Phase 1 of the Spending Review resets departmental resource and capital expenditure budgets for 2024/25 and sets budgets for 2025/26. This includes providing targeted funding to stabilise and support public services and delivering a significant increase in public investment in the economy. Total departmental spending is set to grow by an average of 4.1% per year in real terms between 2023/24 and 2025/26. It will then continue to grow in real terms over the remainder of the forecast period, resulting in an average annual real terms growth rate of 2.2% from 2023/24 to 2029/30. The plans set out in the Budget mean that departments' day-to-day spending (RDEL) will increase by an average of 2.4% in real terms over the forecast period, equivalent to a real terms increase of £62bn between 2023/24 and 2028/29. The Budget also increases capital spending (CDEL) by over £100bn over the next five years, with a £13bn increase next year (a real terms increase of 9.9%), taking total CDEL spending to £131 billion in 2025/26, this equates to an average annual real increase in CDEL of 2.6% between 2023/24 and 2028/29.

3.7 The Budget sets out detailed plans for the 2024/25 and 2025/26 departmental budgets, across each of the 17 government departments. Beyond 2025/26 the Budget only sets out the Government's overall spending envelope, entailing two overall spending totals (one for total RDEL and one for total CDEL) but provides no detailed plans for how these are to be divided between each government department – these will be set in the Government's planned 2025 Spending Review. Spending Review 2025 moves to Phase 2, which will deliver a new settlement for public services, setting out long-term plans for improving public services, achieving value for money for taxpayers, and investing to bring about a decade of national renewal. This is set to conclude in late Spring 2025 and is most likely to set out departmental spending plans for at least two more years.

3.8 The approach by the new Government of growing day to day spending and boosting investment, through increasing taxation and borrowing has alleviated the concerns that previously existed of a new round of austerity measures. Previous OBR forecasts had anticipated real-terms cuts in departmental expenditure and the need for spending restraints, based on the previous Government's plans.

3.9 Local Government

There has been great deal uncertainty in local government finance for a number of years due to a delay in the implementation of funding reforms, volatile economic factors, and fears of a new round of austerity measures. While the Autumn Budget and Spending Review brings some positivity in terms of increases to public sector departmental expenditure (including local government) and has delivered some short term certainty, it still leaves many unanswered questions with Councils having no greater certainty over their individual resource levels beyond 2025/26.

3.10 The Autumn Budget sets out that there will be a real terms increase in core local government spending power of around 3.2% in 2025/26, including at least £1.3bn of new grant funding, of which at least £600m will be funding to support social care.

In addition, local authorities are expected to receive around £1.1bn of new funding in 2025/26 through the implementation of the Extended Producer Responsibility scheme to improve recycling outcomes from January 2025. Other important funding schemes like the Homelessness Prevention Grant were also confirmed to be continuing.

3.11 Importantly though, the Budget is not clear on whether there is a separate funding stream to cover the cost of additional National Insurance costs to Councils. If this is to be funded through the additional £1.3bn of new grant funding, then the overall increase to tackle existing cost pressures will be significantly reduced.

3.12 The additional funding announced is, though a much-welcomed boost to Council finances in 2025/26, and with overall departmental expenditure budgets set to increase in real terms over the reminder of the Spending Review period, the overall trajectory for local government funding looks more positive. However, while this is a step in the right direction the additional funding announced will only help to meet some, but not all of the significant cost and demand pressures that Councils face and does not provide sufficient additional funding to close budget gaps and preserve services. As a result, Councils still face a precarious short and long-term future.

3.13 In addition, clarity on pending funding reforms is urgently needed. The Fair Funding Review of local government funding and the re-set of the business rates baseline are two fundamental reforms to the mechanisms of local government funding, which will have significant impacts on the level of resources for each Council.

3.14 The history of these reforms goes back a number of years to 2018-2020. However, implementation has been successively delayed, primarily due to Covid19, Brexit, in order to provide local authorities with financial stability while responding to the economic shocks experienced' and more recently until after the General Election.

3.15 The Fairer Funding Review is expected to deliver both a new set of formulas for estimating the relative spending needs (the current formulas are based on spending needs from 2013/14) of different Councils, and a more rational overall funding system that better takes into account spending needs and revenue-raising capacity. The review should establish new baselines at the start of a reset to the Business Rates Retention scheme.

3.16 A Business Rates Reset was also set to be introduced alongside the Fair Funding Review. A full business rate baseline reset of accumulated growth is expected to take place, with the intention of better reflecting how much local authorities are actually collecting in business rates. This reset has the effect of wiping out any business rate gains that individual authorities have built since the launch of the current system in 2013/14. This has significant financial implications for the majority of Councils, for those below their baselines this would be a positive move, but it presents a serious threat to those with high growth above baselines, with a punitive, cliff-edge reset.

3.17 Included within the Autumn Budget statement was a commitment to delivering change, setting a different course for the future, including a comprehensive set of reforms to return the local government sector to a sustainable position. The

Government intends to reform the approach to funding allocations within the Local Government Finance Settlement by redistributing funding to ensure that it reflects an up-to-date assessment of need and local resources. This will start with a deprivation-based approach in 2025/26 with additional funding targeted to the places that need it most. Broader redistribution of funding will follow through a multi-year settlement from 2026/27. The Government will set out further details on 2025/26 and the multi-year settlement through the upcoming local government finance policy statement in November. In relation to the Business Rates Reset, the Government and Autumn Budget has been silent. Clarity on plans for, and the timing of, any reset of accumulated business rates growth is needed at the earliest opportunity in an effort to provide certainty to local authorities.

3.18 While the Government has stated that it will give local government the certainty it needs by moving towards multi-year funding settlement to provide long-term stability, the sector is still in the position of a highly uncertain financial planning period. The local government finance policy statement will provide further detail, as well some clarity being received on the Extended Producer Responsibility scheme funding, but it is clear that fast and transparent work by the Government on these matters, or some clear transitional policy up-front of the results of these reviews, will be crucial to enable Councils to set robust budgets.

3.19 Only with greater funding certainty through multi-year settlements and more clarity on financial reform, can Councils undertake effective financial planning, protect services and meet the needs of residents.

3.20 The other main points from the Autumn Budget and Spending Review that are relevant to local government, specifically District Councils, are as follows:

- The Shared Prosperity Fund will continue for a further year and be worth £900m, in advance of wider funding reforms.
- The Government will provide £233m of additional spending in 2025/26 to prevent homelessness. This suggests the Homelessness Prevention Grant continuing for another year.
- Local Housing Allowance (LHA) will be not uprated in April 2025 to reflect 30% rents in the private rented sector. LHA will be frozen at 2024 rates.
- Housing benefit subsidy rates for temporary accommodation will remain at their current level.
- There will be an £86m increase to the Disabled Facilities Grant in 2025/26.
- As announced by the Chancellor prior to the Budget, there were positive measures to support Councils with affordable housing:
    - £500m increase to the Affordable Homes Programme in 2025-26.
    - Right to Buy: Councils will be permanently allowed to retain 100% of receipts locally and discount levels will revert to pre-2012 levels from 21st November.

    - Five-year rent settlement for social housing landlords: rents will rise by Consumer Price Index +1% each year during the period.

- The Government is extending the discounted Public Works Loan Board Housing Revenue Account lending rate until March 2026.

- In relation to Business Rates, key announcements included:

    - 40% business rates relief for retail, hospitality and leisure businesses, up to a total relief of £110,000 per business, in 2025/26;
    - freezing the small business multiplier in 2025/26, with a full CPI increase to the standard multiplier; and
    - an intention to introduce new, permanently lower multipliers for retail, hospitality and leisure properties with a rateable value under £500,000, funded by a new higher multiplier on all properties with a rateable value of £500,000 and above, which includes the majority of large distribution warehouses including those used by large online retailers.
    - Councils will be fully compensated for the impact of these measures and the cost of administering the changes
    - Alongside the Budget, the Government published a discussion paper on business rates reform.

- There were key announcements which will affect Council's as employer's:

    - National Insurance contributions will increase from 13.8% to 15.0% from April 2025, with a reduction to the per-employee threshold at which employers become liable to pay National Insurance to £5,000. The OBR suggests that the Treasury is compensating public sector employers for higher tax costs due to the measure through higher departmental budgets.
    - National Living Wage will increase by 6.7% to £12.21. Minimum wage for 18- to 20-year-olds will increase by 16% to £10 per hour.

- The Government will provide £1bn to extend the Household Support Fund and Discretionary Housing Payments in 2025/26.

- The Spending Review provides over £1bn next year towards the Warm Homes Plan (which has a local grant element) and a guarantee of investment of an initial £3.4bn towards heat decarbonisation and household energy efficiency between 2025/26 and 2027/28.

- The Spending Review also provides over £1bn of funding over three years to fund hundreds of local energy schemes to help decarbonise the public estate through the Public Sector Decarbonisation Scheme.

3.21 Local Government Financial Resilience

After a decade of austerity measures (equating to a 22.2% real terms cut since 2010/11), budget pressures created as a result Covid19, spiking inflation in recent years and growing demand for services, there are an unprecedented number of

Councils now in financial crisis. Under the Local Government Finance Act, a Council's finance officer should issue a report, under section 114 (s114), if they believe that the authority is about to incur expenditure that is unlawful according to the Act, i.e. the Council cannot balance its budget. S114 notices, or the threat of them, are now becoming a regular occurrence of Councils reaching the end of the road in terms of their financial position.

3.22 Since 2020, 18 Councils have received exceptional financial support (EFS) from the Government and 14 Councils have issued at least one S114 notice, in some cases multiple notices have been issued. In addition, there are several authorities who have recently warned that they are at risk of issuing a S114 notice, and arguably more Councils would already have issued a S114 if it wasn't for the last government's extensive use of EFS. Under this framework, local authorities can request support from central government. The Government usually then grants that support in the form of capitalisation directions. A recent survey by the Local Government Association (LGA) found that one in four Councils were likely to apply or EFS in either 2025/26, 2026/27 or both years, with the number rising to 44% for those with social care responsibilities, if the Government did not provide additional funding.

3.23 While the underlying reasons for the unprecedented level of emergency support varies across the Councils, the sheer scale of this intervention by the Government reveals the extraordinary funding emergency facing local government and indicates the risk of financial failure is potentially becoming systematic.

3.24 Recent analysis by the LGA has revealed that Councils in England face a funding gap of £2.3bn in 2025/26, rising to £3.9bn in 2026/27, a £6.2bn shortfall across the two years. And this needs to be seen in the context of the estimated £24.5bn in cuts and efficiencies in service spending that Councils made between 2010/11 and 2022/23. If Councils' net service spend had grown in line with inflation, wage growth, demographics and drivers since 2010/11 it would have been a 42% higher in 2022/23 than actual service spend in 2022/23. Councils have had to absorb these huge pressures through services cuts and efficiency.

3.25 With limited further capacity to make further service cuts, Councils are now increasingly having to draw on their financial reserves to manage these cost pressures and balance their budgets. Councils' un-ringfenced reserves fell by £1.7bn in 2022/23 and £1.1bn in 2023/24. Some 42 % of Councils drew on their reserves in both years. The LGA is clear that the use of reserves is not a sustainable solution to current budget pressures – reserves can only be spent once.

3.26 In its submission to the Treasury ahead of the Autumn Budget the Chair of the LGA said **"**Councils are the key to delivering the Government's priorities, but the risk of financial failure across local government is potentially becoming systemic. Councils already face a funding black hole of more than £2bn next year. Having already delivered £24.5bn in cuts and efficiencies, any further cuts on top of this would be disastrous. The Government needs to take action to provide Councils with financial stability and certainty in order to unlock their full potential. Immediate financial support and long-term funding reform and certainty – alongside a focus on preventative spending - are essential to protect services and enable Councils to fully contribute to the Government's agenda, from social care to housing, economic growth and tackling climate change.”

3.27 In addition, in January 2024, the House of Commons Levelling Up, Homes and Communities Committee published a report on financial distress in local authorities. The report backed calls for an injection of £4bn or risk severe impact to Council services and the prospect of further Councils in England facing effective bankruptcy. The MPs said their report points to a systemic underfunding of local Councils in England, and they have called on the next government to reform Council tax and the wider funding system for local authorities “to ensure Council finances are put on a sustainable footing”.

3.28 While it is reassuring that the new Government has recognised the financial challenges facing the sector and has provided some additional financial support for 2025/26, these only brings a temporary reprieve until a longer term, more sustainable funding plan is in place to sufficiently fund local services. It remains to be seen whether Phase 2 of the Spending Review will deliver the Government’s commitment to provide financial stability and certainty through long-term funding settlements and what if any further additional funding this might include.

4. Integrating Strategic, Service and Financial Planning

4.1 The Council’s vision and strategic priorities drive the medium-term financial planning process, with changes in resource allocation determined in accordance with policies and priorities. The MTFS provides the framework for the development of annual budgets in line with the aims of the Council’s vision and priorities.

4.2 The MTFS is central to identifying the Council’s financial capacity to deliver its vision and strategic priorities, this requires a balance to be struck between the need to support the delivery of the vision with the need to maintain a sustainable financial position. This balance has become extremely difficult in recent years given the Council’s financial position and a need to continue to reduce the net cost base. During the development of the MTFS striking this balance manifests itself in two main ways; it guides decision making in terms of proposals presented in order to achieve any savings targets; and it determines the allocation of resources towards strategic priority areas both in operational service delivery and project implementation.

4.3 The current strategic plan, Vision 2025, and it’s supporting delivery plans comes to a natural conclusion in March 2025. While the Council is proud of all it has achieved with both Vision 2020 and Vision 2025, there is much more to do to make Lincoln achieve its potential, while improving the lives of its residents, businesses and communities. Work has now commenced on the development of a new plan, which will continue to progress a vision for both the City and Council through to 2030. It will set out initially the priorities and actions that the Council will focus on during the first 12-18 months, to allow for a further review post Spending Review 2025 and to reflect on the further policy decisions made by the new Government.

4.4 The action and projects within the plan will be extracted from a range of sources including, existing work programmes, agreed areas of focus, key ongoing strategic projects and other projects and schemes put forward by Members and officers as contributing directly into the priorities. These key projects will cover both the General Fund and the Housing Revenue Account, as well as the Council's capital programmes.

4.5 In developing the next plan, it has been acknowledged that the Council still has a significant financial savings target to realise over the period of the MTFS so there does have to be a careful balance between delivering a range of new projects that will make a real difference for the City and the need to keep tight control of the Council's financial position and also provide the capacity to deliver against both. This balance will be achieved by creating a mix of exciting, high-profile projects that will shape the future of the City, with a range of other projects in keeping with the financial and officer capacity available for delivery. Key to delivery of a new vision will be the ability to continue to attract external funding, work in partnership with others and reallocate/repurpose existing, limited, resources. These internal resources will be available in the form of; potential one off 'additional' resources in 2025/26, through earmarked reserves, borrowing capacity (within the HRA), from capital budgets set aside and from unallocated capital receipts. The attraction of external grants remains a critical element of the Council's Vision and plans.

4.6 Despite the challenges posed to the Council's financial position it remains committed to seeking to deliver against its strategic priorities and longer term vision.

5. Development of the Budget and MTFS

5.1 As set out throughout this report, Councils continue to face cost and demand pressures, along with pressures on income streams. The Council's own financial position is no different to this; inflation, pay awards, maintenance and construction costs, borrowing costs and reductions in local income streams all have a significant impact on the Council's cost base. In addition, the Council continues to see increased demand for services, by those who rely on the safety net provided by local government, driven in part by the cost-of-living crisis and housing shortfall. Together these factors create a situation of the Council's cost base increasing at a greater pace than the funding received from local taxation and Government funding.

5.2 These escalating cost, demand and income pressures have arisen across a number of key areas, affecting both day to day services and capital investment schemes:

- Cost inflation: the prolonged period of high price inflation has had a big impact on the cost of core services. The Council has a number of key service contracts, for front line services e.g. waste collection, housing repairs, that are linked to annual contractual inflationary increases. The cost of these has significantly increased.

- Demand increases and temporary and supported (exempt) accommodation: cost-of-living pressures have increased demand for a range of Council services and contributed to an increased demand for temporary accommodation. In addition, an increase in the number of supported (exempt) accommodations claims in non-housing association properties has significantly escalated the cost to the Council. For both temporary and supported accommodation, while the Council is able to reclaim an element of the costs through the housing subsidy system, a large proportion of this is not funded and is left for the Council to fund.

- Wage inflation: staff costs make up a significant percentage of Council expenditure. Recent pay agreement, negotiated by the National Employers side, whilst recognising the below inflation pay increases of local government workers in recent years, has placed a significant additional burden on local authorities.

- Limits to Council tax revenue: District councils are more dependent on locally raised income than other Councils but are subject to tighter Council Tax limits. The district Council precept makes up only 14% of the total Council Tax bill. Councils are also restricted by referendum limits on its annual increases, which have fallen significantly below the levels of inflation experienced in recent years. In addition, the collection of Council Tax income remains challenging with collection rates lower than pre-pandemic levels, due to the current pressure on household incomes.

- Reduction in Sales, Fees and Charges income: income primarily of a development nature e.g. from planning applications, land charges and building control remains at depressed levels due to pressures in the construction and housing market as the ongoing economic climate and cost-of-living crisis continues to impact on development within the city.

- Construction and capital costs: the cost of delivering building and maintenance schemes has escalated due to inflationary pressures borne by contractors as well as labour shortages, material shortages and supply chain issues. In addition, the cost of borrowing to fund capital schemes is also increasingly impacting on the affordability of projects and the costs borne by the revenue funds.

- Additional burdens: over recent years there have been more and more burdens placed on Councils with little or no additional funding. A key risk that the Council currently faces is the costs of implementing weekly food waste collections from April 2026. While the previous Government were committed to meeting the cost of transition and ongoing service delivery through the new burden’s regime, as yet there has been no confirmation of revenue funding allocations.

5.3 Whilst assumptions were made in the development of the current MTFS there is a requirement to refresh these in light of developments over the last 12 months, and to address the impact of the new and emerging challenges on the overall level of resources available to support the Council’s budget. Additionally, the strategy will be rolled on for a further year so that it incorporates the five years to 2029/30.

5.4 The key financial assumptions on which the preparation of the budget and MTFS are based includes, business rates, government grants, Council tax levels, inflation rates, interest rates, etc. There continues to be to be a number of unknowns and key variables, and it is challenging to estimate some of these assumptions with certainty. Key to this is the lack of certainty on the level of government funding (e.g. EPR, new burdens, funding of national insurance increases, allocation of additional £1.3bn) and the impact of future reforms to the core funding mechanisms. The tradition of budget setting amidst uncertainty looks set to continue for this refresh of the MTFS.

5.5 Against this backdrop of uncertainty, the development of the budget and MTFS, will include the preparation of indicative net base service budgets by the Directorates and Financial Services Team. When reviewing budgets officers will prepare these on an incremental basis and will update in accordance with the assumptions detailed in Appendix A and will highlight cost and demand pressures and potential mitigating actions.

5.6 At this stage in the development of the MTFS there are a number of emerging additional service and demand pressures that are likely to impact on future years budgets. Whilst it is the intention that any new service pressures identified, which have not already been taken account of in the revised assumptions, will as much as possible need to be managed within existing base budgets. Given the scale of some of these pressures these are unlikely to be mitigated in full through this process.

5.7 Alongside this the overall level of resources from Council Tax, Business Rates, Housing Rents, Government Grants etc will be estimated in line with the assumptions detailed in Appendix A.

5.8 <u>General Fund</u>

As referred to above the preparation of the base budgets and resource levels are based on a range of assumptions for key variables. The key changes to the assumptions (further detail of which are set out in Appendix A) for the General Fund, at this point in time, which will have a financial impact are set out below:

Figures in ( ) equate to a surplus	**2025/26 £'000**	**2026/27 £000**	**2027/28 £000**	**2028/29 £'000**
Business Rates	(500)	0	0	0
Council Tax	44	47	27	3
Revenue Support Grant	(31)			
Government Grant/EPR	To be determined post finance settlement			
Contractual Inflation	17	25	26	27
Utility Prices	(195)	(193)	(191)	(189)
Pay Inflation	229	230	236	241
Capital Financing/Treasury Mgmt	(285)	(95)	(60)	(79)
Service demands/pressures (other)	To be determined as part of budget process			
Total Budget Pressures/ (Surplus)	**(721)**	**14**	**38**	**3**

5.9 Whilst the indicative projections above identify additional potential resources in 2025/26, and a low level of ongoing cost increases, it is important to note that these projections do not include any service demands and pressures that may arise as part of the base budget setting process. As set out in a separate report on this agenda, the Quarter Two Financial Monitoring Report sets out a number of financial variances in the General Fund, particularly in relation to the cost of and demand for supported (exemption) accommodation. Whilst the intention is to take appropriate mitigating action and contain service pressures within overall budgets, there will inevitably be some impact on the underlying budgets which will increase the overall level of budget pressures.

5.10 Importantly as well is the Government's intention towards fully funding the additional cost borne by the public sector as a result of the changes to national insurance contributions. The additional cost to the General Fund is estimated as follows:

2025/26 £'000	**2026/27 £000**	**2027/28 £000**	**2028/29 £'000**
354	355	360	366

These costs have not been factored into the table in paragraph 5.9. Should the Government not compensate for these costs this will result in an ongoing cost pressure and a need to increase future years savings targets.

5.11 Despite the likelihood for service pressures to dampen the surplus resources, identified above for 2025/26, it is probable that there will still remain some 'one-off' additional resources. This is likely to be boosted further following announcement of the Local Government Finance Settlement, particularly as a result of the forthcoming allocation of Extended Producer Responsibility payments (which for 2025/26 will sit outside of the Local Government Finance Settlement). Any additional resources in 2025/26 will be prioritised towards delivering new schemes/projects as part of the development of Vision 2030, along with replenishing reserves in order to provide additional resilience for future years.

5.12 Beyond 2025/26, at this stage in the development of the budget, it is not anticipated that there will be a need to significantly increase the level of savings in this latest iteration of the MTFS above those currently set. But, due to the number or variables and unknowns (as set out in this report), the assumptions and estimates above will continue to be refined as part of the development of the budget. The final level of savings targets will be determined following the announcement of the Local Government Finance Settlement in December.

5.13 The current MTFS 2024/2029 is predicated on a savings target of £1.75m by 2027/28. The phasing of the savings target was set to mirror the potential timing of a full Spending Review and implementation of national funding reforms from 2026/27 onwards. In setting these savings targets it was acknowledged that they would be subject to change (positively or negatively) dependent on a new government being in place with a new fiscal policy, the Spending Review taking place, announcements on food waste funding and clarity on the timing and nature of national funding reforms, this still remains the case. Due to the lack of clarity around the future level of local government funding it is highly likely that the level of savings required will need to be adjusted in the next refresh of the MTFS, i.e. in 12 months' time.

5.14 While work has commenced on delivery against the targets for 2024/25 and 2025/26, a full, wider scale programme is set to be developed in 2025/26 in order to deliver the targets from 2026/27 onwards. On the basis of the current reviews, the table below sets out the current level of savings required.

	2025/26 £'000	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**
Savings Target MTFS 2024-29	250	1,500	1,750	1,750
Savings subject to business case	(131)	(134)	(137)	(141)
New savings required	**119**	**1,366**	**1,613**	**1,609**

5.15 The ability to deliver these significant budget reductions must be set in the context of the Council having already delivered, over the last decade and a half, annual revenue savings of nearly £10.5m. This is a significant amount in comparison to the net General Fund budget. This has already involved the Council having to take difficult decisions in terms of which services it can continue to provide, but each year the challenge gets much harder.

5.16 The key mechanism for delivering the required budget savings is through the Towards Financial Sustainability (TFS) Programme, which seeks to bring net service costs in line with available funding. The programme focuses on both short term and longer-term sustainable options, which includes:

- Seeking opportunities to maximise the use of technology
- Considering the benefits of increasing Council Tax in line with referendum limits
- Exploring opportunities to find alternative ways of providing services i.e. through joint working
- Considering community asset transfer opportunities
- Reviewing financial support to third sector organisations
- Seeking to generate additional income by reviewing sales, fees and charges
- Seeking to maximise income opportunities from property investments.
- Maximise grant funding opportunities
- Making the best use of assets,
- Continuing to use the Council's influence, and direct investment in the city to create the right conditions for the City's economy to recover and grow, leading to longer term increased revenue streams for the Council.

However, while the Council will focus on this range of measures, and there is sufficient 'lead in time' to deliver these savings, given the scale of savings required it cannot rule out the need to face further difficult decisions about the size and scope of the essential services it provides, in the future.

5.17 Alongside the development of the TFS Programme, the Council will continue to lobby the Government and call upon them to deliver sustained increases in local government funding in order to bring financial stability. The Council will also support sector campaigns/lobbying regarding specific funding issues i.e. land drainage levies.

Housing Revenue Account (HRA)

5.18 A key element of the self-financing regime is the Council's 30-year Business Plan, which sets out the Council's ambitions for its housing stock for the next 30 years. The Council's latest Housing Business Plan 2024-2054 was approved in November 2023, following a fundamental review of resources, investment requirements and priorities. The Business Plan reflected the impact of government policy changes e.g. Social Housing Act 2023, the Building Safety Act, Fire Safety Act etc, the results of stock condition surveys and financial assumptions at the time. The Business Plans acts as guide to the development of the HRA budgets, with a focus on growing surpluses that will enable sustainable investment in homes and neighbourhoods.

5.19 The revised MTFS for the HRA will be based on the revised financial assumptions (as outlined in Appendix A), updated development and investment profiles, along with any other emerging service pressures. The main changes to the assumptions for the HRA, at this point in time, which will have a financial impact are set out below, with further details provided in Appendix A:

Figures in ( ) equate to a surplus	**2025/26 £'000**	**2026/27 £000**	**2027/28 £000**	**2028/29 £000**
Housing Rents	(164)	(160)	(274)	(149)
Utility Prices	(121)	(119)	(118)	(118)
Pay Inflation	120	122	124	127
National Insurance*	214	215	221	221
Capital Financing/Treasury Management	(177)	(268)	(215)	(276)
Service demands/pressures	To be developed as part of budget process			
Total Budget Pressures/ (Surplus)	**(128)**	**(210)**	**(262)**	**(195)**

* The increase in national insurance contributions is shown as a direct cost to the HRA as no specific grant funding regime is in place that compensates HRA's.

5.20 While the above table sets out the changes in key assumptions and identities additional resources for the HRA, it does not yet take account of service demands and pressures. As set out in a separate report on this agenda, the quarter two financial monitoring report sets out a number of financial variances in the HRA particularly in relation to the labour and contractor shortages the Housing Repairs Service is experiencing. While it is not currently expected that this will create an overall significant ongoing cost pressure for the HRA this will be further developed as part of the budget process. Management of these in-year pressures will be closely monitored and any required changes to the underlying assumptions will be taken into account as part of the development of the budget and MTFS.

5.21 In addition, the critical element of the HRA budget, and primary source of funding is the rental income from Council dwellings. Whilst the assumptions in Appendix A highlight additional rental income due to higher stock numbers, the level of income is also influenced by collection rates, void levels, Right-to-Buy sales and the delivery of new homes. Following the announcement in the Autumn Budget of a reduction in the level of Right to Buy discounts, current assumptions on the level of assumed annual Right to Buy's will need to be reviewed. This is though likely to have a positive impact on overall rental income.

5.22 It is important to recognise that the income from housing rents does not just help fund the Housing Revenue Account, it is also required to fund the ongoing capital investment required in the housing stock. Similar to the revenue account, the capital programme faces an increased cost base due to the impact of inflation, a reduction in available contractors, limited government funding to support investment such as environmental priorities and requirements such as carbon reduction measures to homes etc. Acknowledging the pressure on household incomes, it is important to maintain a careful balance between the level of housing rent applied against the level of resources required to resource the HRA and the capital investment required in the stock.

5.23 As per the General Fund, due to the number or variables and unknowns, the assumptions and estimates above will continue to be refined as part of the development of the budget.

Investment Programmes and Capital Strategy

5.24 The development of the General Investment Programme (GIP) for 2025-30 will focus on the delivery of existing schemes in Vision 2025, new schemes emerging from Vision 2030 and essential investment in existing assets to either maintain service delivery or existing income streams. Due to the lack of revenue resources to fund prudential borrowing (and the higher cost of borrowing) it is essential that other sources of funding such as grant allocations and partner contributions continue to be sought.

5.25 External grant funding continues to enable the delivery of a considerable number of capital schemes for the Council e.g. Lincoln Town Deal Programme, Heritage Lottery Fund for Greyfriars, Sport England for Yarborough Leisure Centre etc. The most significant scheme in the GIP is the £20m Levelling Up Fund 2, which will bring forward the delivery of a bridge to open the eastern access to the Western Growth Corridor site, with a total scheme cost of c£24.8m.

5.26 The development of the Housing Investment Programme (HIP) for 2025-30 will be in accordance with the latest 30-year Housing Business Plan. The focus over the next 5-years will remain on the two main high-level areas of housing strategy and housing investment. In terms of housing strategy, the focus continues to be on maximising the use of retained Right to Buy receipts, assessing the use of prudential borrowing and seeking government grant funding for new build schemes or purchase & repair schemes. With regards to Right to Buy receipts, following announcements in the Autumn Budget, an assessment of the impact on resources in the HIP will now be undertaken. In relation to housing investment, the HIP will continue to focus on the developing and improving core housing services (focussing on the allocation of resources to the key elements of decent homes and supporting the Lincoln Standard), regenerating estates and neighbourhoods and reducing carbon emissions.

5.27 With inflationary pressures having also affected construction costs, as well as the higher cost of borrowing, investment plans will continue to be approached cautiously and allow for flexibility. All schemes across both the GIP and HIP, that have not yet started will be re-evaluated as they come forward for delivery. This will ensure that they still demonstrate value for money and remain affordable. Given the importance of investment in the City, to support the local economy, all opportunities to contain costs and/or seek alternative funding to ensure schemes are delivered will be undertaken.

5.28 The culmination of the above processes will result in a set of budget proposals, including savings targets, that will deliver a balanced budget in line with the Council's strategic priority areas. This will then be subject to public consultation and Member engagement.

Consultation and Engagement

5.29 Local authorities have a statutory duty to consult externally on Council Tax setting. For consultation on the 2025/26 budget, proposals are being developed for consultation and engagement activities designed to gather feedback from residents and stakeholders in a meaningful way, this process will be undertaken alongside the public consultation on Vision 2030. This will allow consideration of the Council's plans for growth and investment to be considered alongside the financial position of the Council, demonstrating how it is intends to use its limited resources to support the priority areas.

5.30 Consultation activities will include, a public survey, use of the Citizens Panel, targeted workshops for specialist groups (similar to the budget consultation earlier in 2024), direct engagement with key stakeholders, including the business community and local partners, and staff engagement.

5,31 Consultation on Vision 2030 and Budget is due to commence in November 2024, which will allow Members to consider the feedback alongside budget scrutiny.

5.32 Following the success in recent years of the all Member workshops and budget scrutiny process, a similar process will be followed in early 2025 to ensure that all Members have the opportunity to consider and fully understand the proposed budget, MTFS and Council tax recommendations and that a robust scrutiny of the proposals is undertaken.

5.33 A financial planning timetable to deliver a balanced and affordable five-year revenue budget strategy and capital programme, in line with the new Vision 2030, is attached at Appendix B.

6. Strategic Priorities

6.1 The Medium-Term Financial Strategy seeks to deliver the key priorities of the Council within the available level of resource, both revenue and capital.

7. Organisational Impacts

7.1 Finance

The financial implications are as set out in the report.

7.2 Legal Implications including Procurement Rules

Section 31A of the Local Government Finance Act 1992 requires billing authorities to calculate their Council Tax requirements in accordance with the prescribed requirements of that section. This requires consideration of the authority's estimated revenue expenditure for the year in order to perform its functions, allowances for contingencies in accordance with proper practices, financial reserves and amounts required to be transferred from the General Fund to the Collection Fund.

These proposals will eventually be referred to Council so that it can approve the budget and set the Council Tax, which it is required under statute to do so for 2025/26 by 11th March 2025.

7.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities.

This report provides a summary of the financial planning activities across the Council. As a consequence of the development of the MTFS and budget for 2025/26 there may be an impact on certain Council services which will be subject to review through the Towards Financial Sustainability Programme. Where individual projects or reviews are being developed, specific equalities implications will be assessed and relevant impact assessments and/or statutory consultation with service users will be carried out accordingly. As the overarching strategic document, a separate equality impact assessment will not be undertaken for the MTFS 2025-2030.

7.4 Human Resources

There are staffing implications associated with the report, especially in relation to the Financial Services Team, where staff will be significantly involved in the preparation of the budgets and MTFS. This resource has been provided for within the Service Plan of the team.

Specific staffing implications may arise where certain Council services are subject to review through the Towards Financial Sustainability Programme. In such cases the Council's Management of Change Policy will be adhered to.

8. Risk Implications

8.1 There are significant risks to the Council's budget strategy, particularly in the short-term as a result of;

- The uncertainty regarding the outcomes of the Spending Review 2025 and allocation of funding to Local Government

- The uncertainty regarding the Governments planned reforms to the redistribution of funding allocations within the Local Government Finance Settlement and future of any Business Rates Reset.

- The cost implications of a range of Government policy initiatives in relation to waste and recycling arising from the Environment Act e.g. implementation of weekly food waste.

- Increased demand for Council services, particularly from those most vulnerable in the City e.g. temporary and supported accommodation.

- The impact of the cost-of-living pressures on income streams as household incomes are squeezed, particularly Council Tax income.

- The impact of the Government's fiscal policy on overall economic factors e.g. inflation, interest rates.

- The impact of the Government's fiscal policy on businesses within the City and the local economy.

- Impact of variations to forecast interest rates, both in terms of investment returns and also on assumptions made on borrowing costs.

- The capacity and ability to continue to deliver a significant level of savings.

The budget process includes the recognition of these risks in determining the 2025/26 budget and MTFS, but it will be imperative that the Council continues to build upon its record of delivering significant savings and maintains a strong financial management discipline in order to ensure a sustainable financial position.

9. Recommendation

9.1 Executive are asked to;

1. Note the financial challenges and risks that the Council faces, particularly the uncertainty surrounding future funding levels,

2. Note the projected budget parameters for 2025/26 and future years and note the planning assumptions, as set out in Appendix A,

3. Note the budget, strategic and service planning preparation programme, set out in Appendix B.

Is this a key decision?	No
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	Two
List of Background Papers:	None
Lead Officer:	Jaclyn Gibson, Chief Finance Officer Jaclyn.gibson@lincoln.gov.uk

KEY BUDGET ASSUMPTIONS MTFS 2025 – 2030

1. The base budget estimates will be prepared on the basis of a number of key assumptions as follows;-

2. Business Rate Tax Base

2.1 The current Business Rates Retention scheme was introduced in April 2013. The calculation of income to be received through the scheme is critical in determining the amount of tax resources that the Council has available to fund local services.

2.2 Surplus position 2023/24

When forecasting the position on the Council's share of the Business Rates Collection Fund balance for 2023/24, a surplus of £0.430m was declared, on the basis of the in-year monitoring position and estimated appeals provisions at that point in time. By the time of closing the 2023/24 accounts the situation had decreased the surplus the surplus by £0.390m. This reduction was predominately due to a change in the rateable value of two Museums within the City, reducing the rateable values to £1 and reducing annual rates payable by c£0.380m, with an overall backdated repayment of £2.659m (this are total amounts and not the Council's share). This decrease in the surplus will be a cost to the General Fund in 2025/26 and will be funded from the Business Rates Volatility Reserve, which is held to cushion such fluctuations in Business Rates income. There is currently a balance of £0.916m in the reserve.

2.3 In year position 2024/25

In relation to the business rate base for 2024/25 this was estimated to be £41.119m. Movements in this base are monitored on a monthly basis so that the Council has an early indication of any significant changes. As in previous years, there has been a significant reduction in the level of business rates payable in year primarily due to the Government extending the rate reliefs that were initially given to ratepayers to provide financial support during Covid19, but which have continued to be provided to the Retail, Hospitality and Leisure industries. Councils continue to be compensated through s.31 grant payments for this loss of income.

2.4 In addition to a loss of business rates payable through reliefs there also continues to be a significant reduction in rates payable in 2024/25 due to properties claiming empty property rate relief. As at September, empty property relief of £1.630m has been awarded, in comparison to September 2023 when the amount awarded was £1.487m, with a final year-end total of £1.798m. The 2024/25 business rates base assumes total empty property reliefs of £2.022m.

2.5 The Council also continues to face pressures due to the impact of appeals, as an example, as stated in paragraph 2.2, due to changes in the rateable values of two Museums within the City, which were reduced on appeal, the business rates base has reduced by £0.380m in 2024/25. While an assumption is made each year for reductions due to appeals, these were significant reductions and are only two of a number of successful appeals against the ratings listings. In addition to the in-year reduction in business ratings income, appeals also often require the pay back of retrospective 'overpayments'. While the Council is required to set aside a provision each year for back dated appeals, these estimates can be significantly different to the final level of assessed reductions, creating further in year reductions in income.

2.6 In terms of collection rates, these continues to perform well with the rate as at September 2024 at 61%, which is 1.44% higher than at the same point in 2023. The position in terms of arrears is also positive, with a lower number and value of businesses currently in arrears than at the same point in 2023.

2.7 Despite the positive collection rate and prudent assumptions made when setting the 2024/25 budget, as a result of the impact of appeals against the ratings lists, income from business rates is likely to fall below budget expectations, with the anticipation of a small deficit on the in-year position. This will be further reported to the Executive in January 2025 as part of the Collection Fund Surplus/Deficit declaration, with the expectation that the Business Rates Volatility Reserve will be sufficient to fund the declared deficit.

2.8 <u>2025/26 – 2029/30</u>

As set out in the main body of this report, while the Autum Budget announced that Phase 2 of the Spending Review would redistribute funding to ensure that it reflects an up-to-date assessment of need and local resources, it was silent on plans for a reset of business rate baselines. Any such reset though, if this is still the Government's intention, would not now be implemented until 2026/27 at the earliest. These changes, if/when implemented and if no transitional protection is in place, will wipe out gains the Council has built up since the launch of the current system in 2013, and reset the level of assumed business rates to be collected. The current MTFS was prepared on the basis of this full reset and subsequent loss of gains made from 2026/27, with no transitional arrangements. Until further information on the reforms are announced, the MTFS will continue to be based on this assumption.

2.9 The Council is currently part of a Business Rates Pool for 2024/25 along with the County Council and the six other Lincolnshire District Councils. The benefit of pooling is that the authorities in the pool can be better off collectively through a reduction in the amount of levy paid to the Government. The arrangements for the current pool are that this retained levy is allocated 40% to the County Council and 60% allocated to the District Council that has generated the business rates growth. The current MTFS assumes, prudently, that pooling would cease from 2025/26 onwards and no future gains beyond 2024/25 were forecasted. However, the Government have recently sought proposals for business rate pools for 2025/26. Along with the other Lincolnshire Districts and County Council, the Council has undertaken an assessment of the implications of pooling and based on current estimates the Council has expressed an interest in continuing the current pool arrangements. Subject to approval of the continuation of the current pooling arrangements, additional resources of c£0.655m are estimated in 2025/26. Beyond 2025/26 it will continue to be assumed that business rates pooling will cease, in line with a potential reset.

2.10 As set out above, the Council still faces uncertainty and the potential for reduced levels of income from the impact of the Check, Challenge and Appeal process. The Council still has a number of challenges lodged with the Valuation Office, against both the 2017 and 2023 ratings lists, along with further identified threats for pending challenges. The Collection Fund is required to fully provide for the expected result of all appeals and uses external assessments to estimate the likely level and value of these appeals. The current provision of outstanding appeals stands at £1.483m, of which the Council's share is £0.593m. In addition to the backdated element of these appeals there is also an ongoing impact due to the reduction in the business rates base, which ultimately reduces the level of income to be retained in the future by the Council. The current MTFS assumes a 3% p.a. reduction in retained rates due to losses on appeals. This was rate was set in advance of the new 2023 ratings list, and was based on national assumptions and local experience from the 2017 list. Based on experience to date of Check, Challenge and Appeals against the 2023 list, the assumption of 3% p.a. will remain over the period of the MTFS.

2.11 In terms of annual business rates increases, these are set nationally by the Government and are usually increased in line with CPI as at September of the preceding year. In recent years, the Government have intervened to either cap or freeze the level of annual increases, and this continues to be the case as announced in the Autumn Budget. In these circumstances Councils have been compensated for loss of income up the level of CPI, with there being no consequent financial impact on Councils of the Governments intervention to cap/freeze the annual multiplier increases. The financial impact on Councils does however come from the rate of CPI as at September, as this will determine the increase in income levels, either through higher/lower rates payable or through higher/lower compensation. The current MTFS assumed that business rates for 2025/26 would increase by 2%, however with September CPI announced at 1.7%, this will result in a reduction of forecasted income in 2025/26. Beyond 2025/26, future years assumptions will continue to be at 2% p.a. in line with the Government's target rate for inflation.

2.12 Beyond 2025/26 it becomes increasingly difficult to accurately estimate the level of business rates resources due to the number of uncertainties and variables around; the timing of the reset; the calculation of baseline need; and the assessment of the business rates baseline. This is in addition to the normal planning variables around the level of appeals; multiplier rates, and levels of growth/decline etc. At this stage in the development of the MTFS, while the 2025/26 budgets will be updated based on the assumptions set out above, the budget estimates for future years will remain as per the existing MTFS, as follows:

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
Current MTFS 2024-29	(6,497)	(5,440)	(5,544)	(5,659)
Latest forecast	(7,997)	(5,440)	(5,544)	(5,659)
Change in resources	**(500)**	**0**	**0**	**0**

3. Revenue Support Grant

3.1 The Council's Revenue Support Grant (RSG) was set to cease in 2024/25 at the end of the current spending review period. However, in 2023/24 a number of grants were rolled into RSG. For the Council this included the Local Council Tax Support Administration Subsidy grant. The current MTFS assumes that only the element of rolled in grant would remain from 2025/26 onwards at £0.158m p.a. Given the funding reforms not will now be implemented until Phase 2 of the Spending Review, RSG at the 2024/25 level uplifted for CPI of £0.190m will be assumed in 2025/26, an increase of £0.031m. From 2026/27 onwards, the existing assumption that only the element in relation to the rolled in grants will remain, at a level of £0.158m p.a. and that the original RSG element will be subsumed into the funding reforms, will remain.

4. Council Tax

4.1 This increased importance of Council Tax, alongside Business Rates, as a principle means of raising tax revenue makes decisions taken in relation to the levels of Council Tax critical to the delivery of a sustainable MTFS.

4.2 Council Tax collection rates suffered as a result of Covid19 and while they began to show signs of improvement post pandemic, the subsequent cost-of-living challenges then reduced collection levels further. Support continues to be made available through the Council's Local Council Tax Support Scheme (LCTS) and Council's Council Tax Hardship Fund, however despite this collection rates remain below pre-pandemic levels. As at the end of September 2024 the collection rate was 50.26% which is 0.2% below the same point last year, and 2.61% below the same point pre-Covid19.

4.3 Along with the collection of in year Council Tax, work also continues on the collection of prior year arrears with over £2.876m collected in 2023/24 towards prior year debts. Despite this the reduced in year collection rates are resulting in in-year arrears growing at a greater rate than the reduction in prior years. As at 31st March 2024 total Council Tax arrears were £12.244m (the Council's share being c£1.7m), an increase of £1.725m from March 2023, equivalent to 18,739 cases an increase of 540.

4.4 The current collection rates assumed in the MTFS are set at 98.75% p.a. Although action is being taken to try and improve collection rates, based on the performance of the both the in year and arrears collection rates it is considered prudent to reduce this by 0.5% p.a. to 98.25% for 2025/26 and 2026/27, increasing to 98.50% from 2027/28 onwards. This will have the impact of reducing overall budgeted Council Tax income.

4.5 In calculating the Council Tax base, the overall yield is reduced by the estimated numbers of claimants entitled to support under the Council's LCTS scheme and the eligibility criteria of the scheme. The more Council Tax support that is awarded the more the taxbase is reduced, limiting the ability to raise Council Tax. In 2023/24, Lincoln's revenue was reduced by 14.1%, due to its local CTS scheme. Of this, 4.5% was in the form of support to pensioners and 9.6% was support for working-age families. The table below compares the share of revenue foregone with the nearest demographical neighbours and England averages.

	Lincoln	Nearest Neighbour	England Average
Support for pensioners	4.5%	4.4%	3.7%
Support for working-age	9.6%	7.0%	5.1%
Total Council Tax Support	**14.1%**	**11.4%**	**8.8%**

4.6 Despite the cost-of-living challenges experienced in recent years, the number of LCTS claimants has continued to reduce, with total claimants of 8,278 at June 2024 compared with 8,491 in March 2020.

4.7 The current MTFS assumes a reduction of 1% p.a. in claimant number in 2025/26 to 2027/28, with the caseload plateauing from 2028/29 onwards. Based on the latest caseload numbers and trends, this assumption will continue.

4.8 At this stage in the development of the MTFS current entitlements under the LCTS Scheme are being reviewed with public consultation taking place during November/December. Any adjustments to the scheme or indeed to the Council Tax discretions that are applied will be reflected in the final MTFS following consultation and subsequent Executive approval. These are not yet included in the Council Tax modelling below.

4.9 The current MTFS assumes an annual increase in the Council tax base of 1.25% as a result of new property development. Although housing delivery on the Western Growth Corridor development has now commenced, the majority of the development will be towards the end of the MTFS period. The revised MTFS will continue to be based on the assumption of growth of 1.25% p.a. in 2025/26 – 2027/28, increasing to growth of 1.5% p.a. for 2028/29 and 2029/30.

4.10 As part of the 2024/25 Finance Settlement the Government announced an increase in the Council Tax Referendum Limit, allowing District Councils to increase Council Tax by the higher of 3% or £5. The current MTFS was prepared on the basis of reverting to the previous referendum limit of 2% p.a. from 2025/26 onwards and assumed an increase of 1.9% p.a. To date, there has been no announcements on the Government's intention for any referendum limits for 2025/26 onwards, and the Autumn Budget was silent on this. It is likely that the upcoming local government finance policy statement, expected in November, will provide further clarity on this. Until any further announcements are made the MTFS will therefore continue to be based on the assumption of a 1.90% p.a. from 2025/26 onwards.

4.11 From 1st April 2025 new legislation, introduced under the Levelling Up and Regeneration Bill 2023, will allow Council's to raise a premium of no more than 100% on furnished properties without a resident that are occupied periodically (second homes). Full Council considered a report on this new flexibility in February 2024 and agreed the introduction of a 100% premium with effect from April 2025. This new premium will be assumed in the Council Tax base from 2025/26 onwards.

4.12 Based on the assumptions as set out above and using the latest Council Tax base position, estimated Council Tax yields are set out in the table below. Overall yields have reduced primarily due to the reduction in the assumed collection rates:

	2025/26 £'000	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**
Current MTFS 2024-29	(8,185)	(8,474)	(8,771)	(9,067)
Latest forecast	(8,141)	(8,427)	(8,744)	(9,063)
Change in resources	**44**	**47**	**27**	**3**

If an increase to the referendum limits were to be announced, on the basis of the limit of 3% in 2024/25, an increase in Council Tax yields up to this limit would result in additional income of c£79k p.a.

5. Other Core Spending Power Government Grants

5.1 <u>New Homes Bonus (HNB)</u>

Historically NHB was a significant source of funding for District Council's, but subsequent amendments to the scheme parameters and funding envelope reduced the levels of grant allocations. Despite this the Council still received an allocation of £0.380m in 2024/25. The previous Government had announced a consultation on the future of the New Homes Bonus scheme on a number of occasions, which did not transpire. Since the General Election, there have been no further updates on the future of the scheme and there was no reference made in the Autumn Budget. The current MTFS does not assume any grant allocations beyond 2024/25 and will continue to be prepared on this basis until further clarity on the future of the grant is given.

5.2 <u>Services Grant</u>

This grant, previously announced as a one-off in 2022/23, remained in the Finance Settlement for 2023/24 and 2024/25, although with a much-reduced funding envelope. The grant was intended to provide funding to all tiers of local government in recognition of the vital services delivered at every level of local government. Its value was determined based upon resources left available after decisions on all other grants (e.g. increase in minimum funding guarantee, additional social care grant etc), hence it's reduced level in 2024/25. The Council's allocation in 2024/25 is £0.026m. The current MTFS does not assume any grant allocations beyond 2024/25 and will continue to be prepared on this basis until further clarity on the future of the grant is given.

5.3 Funding Guarantee

This new grant, announced for 2023/24, was intended to provide a funding floor for all local authorities, so that no local authority would see an increase in core spending power that is lower than a set percentage. The Council's allocation for 2024/25 was £0.434m. While no announcements have been made in relation to the future of this grant, given its purpose is to maintain a funding floor, then the current MTFS cautiously assumed an ongoing grant allocation of £0.300m p.a. The revised MTFS will continue to be prepared on this basis until further clarity on the future of the grant is given.

5.4 Internal Drainage Board Levies Grant

A small number of Councils are required to make payments of Special Levies to Internal Drainage Boards (IDB's) for the specific use of managing the maintenance and operation of drainage, water levels and flood risk, which is required to manage water resources and reduce flood risk to people, businesses, communities and the environment. These Special Levies represent a significant proportion of the Councils' net budget at £1.263m p.a., equating to 16% of the Council Tax Requirement. The annual increase in levies is ordinarily in line with CPI projections, however due to the economic climate and the significant cost increases borne by the IDB's along with the impact of a number of significant storms in 2023, average inflationary increases of 20% and 16% were applied in 2023/24 and 2024/25 respectively. Councils have no control over the sum levied.

5.5 This issue is unique to a small number of Councils and following a successful campaign of lobbying, Government made one-off grant allocations to those Councils most impacted in 2023/24 and 2024/25. The Council's allocation for 2023/24 was £0.142m, with £0.173m allocated for 2024/25. As a comparison the inflationary increase in the Council's levies from 2022/23 to 2023/24 was £0.160m with a further increase of £0.177m to 2024/25.

5.6 While these one-off grant allocations from Government are welcomed, the Council is continuing to still seek a longer term, more sustainable, approach to Drainage Board funding from Government that removes the need for Council subsidy entirely. The Council is part of a Special Interest Group, supported through the LGA, which continues to lobby Government to seek a revised approach to the funding mechanism. No grant beyond the 2024/25 allocation is currently included in the MTFS and this will remain the current planning assumption.

6. Extended Producer Responsibility/Implementation of Food Waste

6.1 Extended Producer Responsibility (EPR) is a scheme that requires producers of packaging to pay for the cost of recycling that packaging. The Government's intention was to use the income from the scheme in the local government funding system, which would include reviewing the impact of this income on relative needs and resources of individual authorities. Local authority finances are affected by the policy in the following way:

- Companies above certain thresholds for size and generated packaging waste will have to pay a fee to a Scheme Administrator (yet to be set up but will initially be a public body). The Scheme Administrator will determine the fee schedule.

- The total collected fees (excluding the Scheme Administrator's own administrative fee) will be distributed to local authorities to compensate for net costs of their household and commonly binned waste services, including collection, disposal, and recycling. These costs form the basis of the fee mechanism. The policy does not currently address the question of how any funding shortfall arising from non-collection of the fee would be addressed, but the fact that the fee will be applied to large producers makes collection potentially easier.

- Funding will be provided on the basis of the Scheme Administrator's assessment of what a 'net efficient cost' of providing the service is locally. The Scheme Administrator will assess the household and commonly binned packaging waste management costs, volumes, and income (for example, through selling waste) by each relevant local authority. It will be able to take into account other factors (for example, frequency of collection, sparsity, types of households, deprivation, and others). It will be up to the Scheme Administrator to devise this process and calculation model.

- The Scheme Administrator will have the power to assess the efficiency and effectiveness of local household and commonly binned packaging waste services, including activation of an improvement plan mechanism. Powers will be granted to penalize local authorities to the sum of up to 20% of their assessed 'net efficient costs'.

- This will be an annual process.

6.2 Funding for local authorities was originally intended to start in October 2024, but implementation of the scheme has subsequently been delayed, with authorities now expected to be notified of payment estimates in November 2024 with payments received towards the end of 2025. Additional income of c£1.1bn p.a. is expected to be received by authorities through implementation of the scheme. This will provide a 1.6% real terms increase in funding in 2025/26.

6.3 The Autumn Budget stated that for 2025/26 this will be treated as 'new money', but it may be netted off in the Finance Settlement in future years. This is an important 'one-off' boost in 2025/25, particularly for District Councils. However, until the Government sets out how this significant funding stream will affect the wider local government finance system beyond 2025/26, i.e. will existing funding be reduced to reflect that EPR is providing some funding for waste and recycling services, or will it simply be additional income, then it isn't possible to assess whether this will be ongoing, additional funding for local authorities.

Also, exceptionally for 2025/26 only, and recognising the importance of Councils being able to effectively plan their budgets, the Government will guarantee that if local authorities do not receive EPR income in line with the central estimate there will be an in-year top up.

6.4 In addition to the implementation of the EPR scheme, waste collection authorities are required to provide weekly waste collections to all households by 31st March 2026, as mandated by its inclusion in the Environment Act 2021. This will be the largest change to waste collection services in Lincoln since the introduction of wheeled bins.

6.5 The introduction of food waste collections will require significant resources to implement, of both a capital and revenue nature. Under the New Burdens doctrine, the Government have stated that they will provide local authorities with funding to meet agreed reasonable new burdens arising from these new statutory requirements. While capital transitional grant allocations have already been announced, to date there has been no further detail announced on the level of revenue funding Councils are likely to receive. It is also not clear whether the revenue funding allocations will take into consideration the varying delivery arrangements that Councils operate e.g. the Council contracts out its service delivery and as such the revenue costs it incurs include the cost of vehicle provision, whereas other Council's outright purchase the refuse vehicles and do not pay for these as a revenue cost. Initial estimates indicate that his new service will cost in the region of £0.5m - £0.6m p.a. At this stage in the development of the MTFS no estimates of additional expenditure or income have yet been assumed, work continues on developing these budget estimates. It is anticipated that subject to grant funding announcements the MTFS will include an estimated of the net cost implications of operating this new service. There is a high risk that the new burdens funding provided will not cover the revenue costs associated with implementing this new statutory service, creating a further budget pressure.

7. Inflation

7.1 The cost of inflation affects the price of the goods and services that the Council purchases. Many of the Council's service contracts are index linked to CPI, RPI or other industry standard indices, at a defined date in the year (specific dates vary between contracts). In addition, the general inflationary increase applied within the MTFS is normally maintained in line with CPI projections. In recent years, as a result of the high levels of inflation the costs of the goods and services the Council purchases escalated significantly, leading to soaring costs for the Council's key service contracts, in particular Waste/Recycling, Street Cleansing and Grounds Maintenance. In addition, other contractual cost increases arose from existing/retendered contracts as well as significant increases in material and subcontractor costs, which was a particular issue for the HRA. However, now that CPI has fallen back costs are now stabilising and the inflationary pressures are easing.

7.2 CPI currently stands at 1.7% as at September 2024, down from 2.2% in August and having dropped 5% in the past year. Despite this drop in September, the latest forecasts from the Bank of England are that inflation is expected to edge up to about 2.6% in 2025 before gradually falling back in 2025, remaining close to the 2% target throughout the remaining 3-years of the OBR forecast.

7.3 The current MTFS assumes a CPI rate of 2% p.a., while this is in line with the Bank of England's forecasts, the December 2024 CPI rate is estimated to be c0.5% higher than the current MTFS assumption. This will specifically have an impact on the cost of the Waste/Recycling, Street Cleansing and Grounds Maintenance contracts. CPI from 2025/26 will continue to be assumed at 2% p.a., with RPI assumed to be CPI+1%.

7.4 The higher levels of CPI inflation forecast for December 2024 will result in an estimated additional cost burden for the General Fund.

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
General Fund	17	25	26	27

No specific additional costs for the HRA have been assessed at this stage, but work will continue as part of the development of the budget, with any cost pressures arising considered as part of the base budget service pressures.

8. Utilities

8.1 The Council currently procures the majority of its gas and electric supplies through a Framework Agreement, which brings with it the benefit of economies of scale. Historically the Council had benefited from significant cost savings with supply costs considerably below the wholesale market prices.

8.2 However, as a result of the sharp spike in energy prices the Council experienced substantial increases, during the period 2022 – 2024, in the cost of gas and electric. For gas, costs increased on average increase by 70% in April 2022 and by a further 180% in April 2023. For electricity, costs increased by 100% in October 2022 and by a further 20% in October 2023.

8.3 Following these exceptional increases, as a result of the downward trend of market prices, supply costs reduced by c25% for gas from April 2024 and c35% for electricity from October 2024. Beyond this, costs are for gas are expected to decrease by a further 20% from April 2025 with electricity costs plateauing with a possible increase of between 0-5%.

8.4 On the basis of the latest forecast decreases/increases in costs provided from the framework provider, the reduction in costs for both gas and electricity are estimated to be:

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
General Fund	(195)	(193)	(191)	(189)
Housing Revenue Account	(121)	(119)	(118)	(118)

Further updates are expected from the Framework provider in November 2024, which will inform the final estimates to be included in the MTFS.

9. Pay

9.1 In May 2024, the National Employers for local government services put forward a pay offer to increase salaries by £1,290 for 2024/25 for all salaries on the National Joint Committee (NJC) pay scales, with an increase of 2.5% on all other pay points. This equates to a 5.77% pay rise for the lowest-paid workers. This pay offer was applicable to all ‘Green Book’ and ‘Red Book’ (craft workers) employees, along with Chief Officers and Chief Executive’s whose pay offer was based on the 2.5% increase.

9.2 While this pay offer has now been accepted for all ‘Green Book’ employees, Chief Officers and Chief Executives, an agreement is still to be agreed for ‘Red Book’ employees.

9.3 The current MTFS assumed a pay increase of 2% p.a. from 2024/25 onwards. The nationally agreed pay award is in excess of this assumption for 2024/25, with the majority of the council’s workforce set to receive pay rises of between 5.7% and 2.5%. Based on the latest pay offer, but still assuming a 2% p.a. pay award from 2025/26 onwards, the additional costs to the MTFS, over and above the budget assumptions are as follows:

	2025/26 £’000	**2026/27 £’000**	**2027/28 £’000**	**2028/29 £’000**
General Fund	229	230	236	241
HRA	120	122	124	127

Any pay award above the 2% assumed for 2025/26, would equate to the following additional costs for every additional 1%:

	2025/26 £’000	**2026/27 £’000**	**2027/28 £’000**	**2028/29 £’000**
General Fund	168	172	176	179
HRA	102	104	110	107

9.4 In addition, the Council remains committed to paying its lowest paid workers at the level of the Living Wage, as recommended by the Living Wage Foundation as opposed to the Government’s National Living Wage. An assumption of annual increases of 3%, in line with RPI projections, are currently built into the MTFS to reflect this commitment to maintain the Living Wage. The latest increase in the Living Wage Foundation has been announced at 5% from January 2025. These additional costs are included in the additional pay costs above. Beyond 2024/56, the annual increases will be assumed to be in line with RPI, at 3%.

9.5 As part of it's Autumn Budget 2024 the Government announced that from April 2025 there would be an increase in the rate of employer National Insurance contributions from 13.8% to 15% and a reduction in the per-employee threshold at which employers become liable to pay National Insurance from £9,100 to £5,000. The estimated cost to the Council of the increase in Employers NIC's is as follows:

	2025/26 £'000	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**
General Fund	354	355	360	366
HRA	214	215	221	221

It was also announced that the Government intends to compensate departments and other public sector employers for the increased cost of the contributions. As yet no further detail of this compensation has been announced, but given the scale of the additional cost burden urgent clarification from Government is needed.

10. Local Government Pension Scheme

10.1 The latest triennial revaluation of the Council's Pension Fund took place at 31 March 2022, and the results identified that there has been a significant improvement in the funding position since the last actuarial review from a 83.9% funding level to 92.7%. The improved funding position had a positive outcome on contribution rates, reducing secondary payments considerably. However, the cost of accruing future pensions had increased, particularly given the increase in inflation, and that drove up primary rates from 17.3% of pensionable pay to 23.4%. The increase in the primary contribution rates, for the existing staff establishment, is though offset by the reduction in secondary contribution rates, generating an overall reduction in costs which is reflected in the current MTFS,

10.2 A further actuarial review will take place in April 2025, which will inform the employer contributions from 2026/27 onwards. While it is currently anticipated that the funding position on the Fund will continued to have improved since the last valuation, which could lead to a further positive impact on contribution rates, until the actuarial review is undertaken, the MTFS will continue to be prepared on this basis of no further increase/decreases in annual contributions rates.

11. Fees and Charges

11.1 Fees and charges income budgets are increased by a set percentage per annum based on their total yield. This increase does not preclude individual fees and charges being increased by more or less than this percentage.

11.2 From 2025/26 onwards the current MTFS assumes an increase of 3% p.a. in the total yield from fees and charges, on the basis of annual increases of CPI+1%. This assumption will remain in place for the revised MTFS period.

11.3 Although an average increase of 3% will be applied to income budgets, current economic conditions and cost of living pressures are impacting on income levels in some service areas. An assessment of each service's overall yields will be undertaken as part of the development of the budget to identify any specific pressures of this proposed increase.

12. Investment Interest and Borrowing Costs

12.1 As set out in the main body of the report, following a 16-year high the Bank of England base rate saw its first drop in more than 4-years August 2024, with further rates dropped expected as inflation reduces and begins to stabilise.

12.2 The Council's sensitivity to these changes in interest rates is linked more markedly to investments rather than to the portfolio of borrowing as all borrowing is at fixed interest rates and borrowing costs incurred on any short-term borrowings are minimal. There may however be a revenue impact from future, planned, borrowing where actual rates at the time the borrowing differs from the budget assumptions.

12.3 Although interest rates are expected to drop further in 2024 and 2025, there is still a level of uncertainty surrounding about the specific timing and level of reductions. This makes assessing the impact on the Council's investment income difficult, however based on the latest assumptions the forecasts in comparison to those assumed in the current MTFS, are as follows:

	2025/26	**2026/27**	**2027/28**	**2028/29**
Revised Average Investment Rate	3.30%	2.92%	2.98%	2.98%
Current MTFS	3.11%	2.92%	2.92%	2.92%
General Fund	**£'000**	**£'000**	**£'000**	**£'000**
Current MTFS 2024-2029	(210)	(201)	(279)	(309)
Latest forecast	(167)	(245)	(283)	(328)
Change in resources	**43**	**(43)**	**(4)**	**(19)**
HRA	**£'000**	**£'000**	**£'000**	**£'000**
Current MTFS 2024-2029	(312)	(281)	(373)	(410)
Latest forecast	(349)	(444)	(490)	(581)
Change in resources	**(37)**	**(162)**	**(117)**	**(171)**

12.4 As a result of the current high level of interest rates, internal balances are currently being used to fund existing borrowing requirements, reducing the amount of interest that would have been payable on new debt, although this is partially offset by a reduction in interest receivable. However, it will be necessary to undertake some new borrowing over the period of the MTFS. The latest forecasts for borrowing costs in comparison to those in the MTFS are set out in the table below. The reduction in borrowing costs is as a result of the repayment of two higher rate market loans which we replaced by lower rate PWLB funding or funded through internal balances. In addition, a temporary borrowing requirement in the General Fund is now being funded through internal balances.

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
General Fund				
Current MTFS 2024-2029	1,581	1,294	1,283	1,309
Latest forecast	1,254	1,242	1,226	1,248
Change in resources	**(328)**	**(52)**	**(56)**	**(60)**
HRA				
Current MTFS 2024-2029	2,452	2,452	2,631	2,693
Latest forecast	2,312	2,346	2,533	2,588
Change in resources	**(140)**	**(106)**	**(98)**	**(105)**

Work on assessing the impact on the Council's investments and future borrowing requirements will continue during the development of the budget.

13. Housing Rents

13.1 The current MTFS and Housing Business Plan 2024-2054 were prepared on the basis that the Government's existing Rent Guidelines (due to end in April 2025), which dictate that social rents should increase by a maximum of CPI+1%, would continue. In October 2024, the Government announced that it will consult on a new 5-year social housing rent settlement, with the intention of capping rent increases at CPI+1% on an annual basis. In light of this latest announcement the MTFS will continue to assume social rent increases of CPI+1% p.a.,

13.2 Included in the Council's housing stock are a number of properties that were partly funded by Homes England grants on the condition that they are to be let on the basis of an affordable rent rather than on social rents. In addition, there are a number of other dwellings that are let on the basis of an affordable rather than social rent. Affordable rents are not subject to Government Rent Restructuring Policies and are let at 80% of market rent levels in the local area. The current MTFS assumes rental increases in line with social rents for its affordable rents and will continue to be developed on this basis.

13.3 As the current MTFS had assumed CPI of 2% p.a. for 2025/26 onwards, the level of rent increase is currently assumed at 3% p.a. The applicable date of the CPI increase is as at September each year, as CPI at September 2024 was 1.7% the maximum rent increase that can be applied for 2025/26 is 2.7%, leading to a reduction in assumed income of c£0.035m p.a. However, this loss of income has been compensated for by changes in assumptions on stock numbers, increasing the overall rental yield.

13.4 At the end of 2023/24 rent collection levels were at 97.50%, with overall rent arrears of 2.88% of the net debit. This outturn represented a significant achievement in terms of income collection considering the cost-of-living pressures that tenants are facing. In monetary terms rent arrears at the end of the year was £1,009,9501 compared to £1,031,048 at the end of March 2023, a reduction of £21,098. The in-year collection rate at the end of September 2024 was 96.42% compared to 97.24% at September 2023. Rent collection is closely monitored and Tenancy Services continue to support tenants through DHP's and general advice and guidance. The current MTFS assumes a collection rate of 99% p.a., whilst at this stage this will remain the assumption, this will be considered further as part of the development of the MTFS, dependent on final level of rent increases.

13.5 Based on the assumptions as set out above, estimated rental yields are set out in the table below.

	2025/26 £'000	**2026/27 £'000**	**2027/28 £'000**	**2028/29 £'000**
Current MTFS 2024-29	(35,720)	(36,635)	(37,574)	(38,535)
Latest forecast	(35,884)	(36,795)	(37,848)	(38,684)
Change in resources	**(164)**	**(160)**	**(274)**	**(149)**

14. **Level of Revenue Reserves** - The prudent minimum level of reserves for the General Fund has been increased in recent years, in light of the increased level of volatility in funding and the level of the increased risk to which the Council is now exposed, to between £1.5m-£2m. This increase has allowed the Council to cushion the impact inflationary pressures has had on its finances and will continue to do so in future years, as well as now responding to increased service demands. Whilst the overall level of balances are budgeted to be maintained over the period of the MTFS there are planned use of balances in 2025/26 – 2027/28, with a positive contribution forecasted in 2028/29. In light of the changes in assumptions set out in this report the use of/contribution to balances will be assessed as part of the budget development. However, the overriding principle of maintaining a balance between £1.5m-£2m and seeking to make positive contribution in the medium term will remain. In terms of the HRA it is currently assumed that the optimum level of reserve holdings will be maintained at c£1m.

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BUDGET AND FINANCIAL PLANNING TIMETABLE 2025/26

No.	Target Date	Group	Deliverable	Responsible Officer
1.	**Member Briefing Sessions**			
1.1	27th Jan 25	All Members	All member workshop presenting the draft budget proposal for 2025/26 and Medium Term Financial Strategy 2025-2030.	CFO
2.	**Base Budget Preparation**			
2.1	20th Sept 24	AD's/ Service Managers	Budget guidance and working papers circulated to Assistant Directors and Service Managers for preparation of base budgets, including notification of Directorate Cash Limits.	Finance Team
2.2	30th Oct 24	AD's/ Service Managers	Completion of service cash limit budgets by budget managers.	Finance Team
2.3	8th Nov 24	DMT's	Review of summary cash limit budgets and appropriate revisions made with AD's and DMT's.	Finance Team
2.4	26th Nov 24	CMT	Review of summary cash limit budgets and consideration of unfunded budget items. Review of funding assumptions of capital programme.	FSM
2.5	26th Nov 24	CMT	Review of Fees & Charges Schedules for 2025/26	FSM
2.6	20th Dec 24	Financial Services	Completion of consolidated base budgets and capital programmes.	Finance Team
2.7	24th Dec 24	CMT	Review of draft budget proposals for 2025/26 and Medium Term Financial Strategy 2025-2030.	CFO
3.	**Vision 2030/Service Planning Preparation**			
3.1	May 24	CMT	Horizon Scanning	CMT
3.2	May 24 Jun 24	CMT Executive	Review and approve the City Profile. This is a key evidence base.	Corporate Policy
3.3	May 24	CLT	Review and development of initial Vision 2030 proposals and impact assessment document by CLT.	CLT
3,4	Aug 24	Portfolio Holders	Discussions to have taken place with Portfolio Holders to review impact assessment, review Vision Priorities, aspirations and key actions.	Directors and ADs

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No.	Target Date	Group	Deliverable	Responsible Officer
3.5	Oct 24	Portfolio Holders	To review and refine draft priorities, aspirations and key actions for the first 12-18 months of Vision 2030.	CMT
3.6	20th Nov 24	CLT	Review draft priority actions for first 12-18 months of Vision 2030 for cross cutting projects.	Corporate Policy
3.7	Dec 24	DMTs	Draft Service Plans developed based on proposed priorities, aspirations and 12-18 month priority actions	ADs
3.8	Mar 25	CMT	Following agreement of Vision 2030 proposals by Council, final service plans for first 12-18 months to reviewed and then published.	CLT
4.	**Consultation and Scrutiny**			
4.1	Nov-Dec 24	General Public Stakeholders	Vision 2030, incorporating Budget/Council Tax, consultation/engagement activities	CFO Corporate Policy
4.2	4th Feb 25	Audit Committee	Consider and review: • Prudential Indicators 2025/26-2028/29 • Treasury Management Strategy 2025/26 with responses to the Executive	FSM
4.3	5th Feb 25	Budget Scrutiny Review Group	Consider and review the draft budget proposal for 2025/26 and Medium Term Financial Strategy 2025-2030, making any recommendations to the Executive.	CFO
4.4	20th Feb 25	Performance Scrutiny Committee	Performance Scrutiny Committee – Consider response from Budget Review Group and refer to the Executive.	CFO
5.	**Committee Approval Process**			
5.1	18th Nov 24	Executive	Consideration of the budget strategy to be adopted for the 2025/26 process, including; • Update on economy and financial environment, • A revision of MTFS assumptions • Consultation proposals (both public and with Members)	CFO
5.2	2nd Dec 24	Portfolio Holders	Assessment of Fees & Charges Schedules for 2025/26	FSM

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No.	Target Date	Group	Deliverable	Responsible Officer
5.3	6th/13th Jan 25	Portfolio Holders	Assessment of overall capital and revenue budgets	CFO
5.4	6th Jan 25	Executive	Approval of Council Tax Base for 2025/26, Council Tax Support Scheme 2025/26 and Estimated Collection Fund Balance for 2024/25 for Council Tax.	FSM/HSRB
5.6	6th Jan 25	Executive	Consideration and recommendation to Council for approval of the Housing Rent Levels for 2024/25.	AD-H
5.7	20th Jan 25	Executive	Approval of a draft budget proposal for 2025/26 and Medium Term Financial Strategy 2025-2030 for formal consultation.	CFO
5.8	20th Jan 25	Executive	Approval of Estimated Collection Fund Balance for 2024/25 for Business Rates.	FSM/HSRB
5.9	6h Jan 25	Executive	Consideration and recommendation to Council for approval of the Housing Rent Levels for 2024/25.	AD-H
5.10	21st Jan 25	Council	Approval of Council Tax Base for 2025/26 and Council Tax Support Scheme 2025/26.	FSM/HSRB
5.11	21st Jan 25	Council	Approval of the Housing Rent Levels for 2025/26	AD-H
5.12	24th Feb 25	Executive	Approval for referral to Council of: • Final budget proposals for 2025/26 • Medium Term Financial Strategy 2025-2030 • Treasury Management Strategy 2025/26 & Prudential Indicators • Council Tax levels for 2025/26 • Fees and Charges levels for 2025/28	CFO
5.13	24th Feb 25	Executive	Approval of Vision 2030	ADSDT
5.14	4th Mar 25	Council	Approval of; • Final budget proposals for 2025/26 • Medium Term Financial Strategy 2025-2030 • Treasury Management Strategy 2025/26 & Prudential Indicators • Council Tax levels for 2025/26 • Fees and Charges levels for 2025/28	CFO
5.15	4th Mar 25	Council	Approval of Vision 2030	ADSDT