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North Herts Council

Medium Term Financial Strategy 2025-30

Purpose of the Strategy

This strategy sits alongside the Council Plan. It sets out our financial forecasts over the next five years and how we will manage the funding that we think we will have available, to deliver as much as we can, in line with our priorities.

Our Council Plan covers the period until the next set of Council elections, so is from 2024-28. As detailed below it is good practice for a financial strategy to take a longer-term focus. So this document covers up until 2029/30. For the period of overlap with the Council Plan, we have kept the two documents aligned.

Delivering our Vision and Priorities

Our vision and priorities are set out in detail in our Council Plan.

Our vision is “working with you for a fairer, greener North Herts.

To support that our priorities are Thriving Communities, Accessible Services, Responsible Growth and Sustainability.

Most of the money that we spend is on delivering statutory services. We will always look to deliver these services in line with our priorities. Even as our funding has continued to reduce, we have tried to maintain our ability to offer discretionary services that are linked to our priorities. Our forecasts are that we will need to further reduce our costs in the future. This will mean that difficult decisions will need to be taken. We will make those decisions in line with our priorities.

Our Council Plan includes our aspirations for North Herts. Some of the ideas may be dependent on identifying funding or developing a sustainable business case.

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Scope of this Strategy

Like many other Councils, we want certainty over our future funding. That would give us the ability to plan the services that we deliver to match the funding available.

We would like to use this document to provide a long-term (10 year) overview of our future funding, and risks and opportunities in relation to our spending and income. Unfortunately, we are faced with such significant uncertainty in the short to medium term in relation to our future funding, that our focus has to be on that. That means that this strategy is focused on the next five years, with a particular focus on the next two years.

Over the last few years, we have been able to increase the level of our general fund reserves. The plan is that we can use these to soften the impact of inflationary pressures and expected future funding reductions. However reserves can only be spent once, and it seems very likely that spend will need to be reduced in the medium term and balanced against the funding we receive. This will require some difficult decisions on which services meet our statutory obligations and best deliver against our priorities.

This strategy is based on significant uncertainty and as better information becomes available then this will be used. The budget that Full Council sets in February 2025 will be focused on 2025/26 but will also consider the medium term impact.

Revenue and Capital spend

Revenue is what we spend on day-to-day activities. It includes staffing and payments to suppliers to deliver services. It also includes income from fees and charges where the user pays for some or all of the cost of the service.

Capital is what we spend on the buying, creating and maintaining our assets. Assets are things that can be used for more than one year, and include land, buildings and vehicles.

Most of our funding is revenue and can be used for either revenue or capital spend.

Where we sell surplus assets we receive a capital receipt and that funding can only be used to fund new capital spend only. We also sometimes get capital grants, that can only be used for capital spend. We can borrow to fund capital spend, but we are then required to make a charge to our revenue budget that spreads the cost of that borrowing over the life of the asset.

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Our revenue budget forecasts for 2024/25

As at the 1st April 2024 (subject to audit) we had a General Fund balance of £14.057 million.

The revenue budget that was set by Council in February 2024 was:

	£ 000
Net expenditure before inflation and carry-forwards	18,350
Pay inflation	700
Contract inflation	571
Income inflation	(314)
Carry-forwards	626
Total net expenditure	**19,933**
Funded by:	
Council Tax	13,123
Business Rates (including funding for Government policy decisions relating to Business Rates)	3,686
Other funding	1,397
Total in-year funding	**18,206**
Shortfall in funding	1,727
Agreed use of Business Rates reserve	(1,727)
Impact on General Fund	0

Since the budget was set, we have updated our forecasts for up to the end of Quarter 3 (23/24), end of year (23/24) and Quarter 1 (24/25). These have had the following impacts on 2024/25 forecasts:

- Q3 carry-forward requests of £343k and other ongoing impacts of a £68k increase in spend.
- End of year carry-forward requests of £487k and other ongoing impacts of a £147k increase in spend.
- Q1 decrease in spend of £858k, with an ongoing impact of £174k increase in spend.

Overall this means an estimated General Fund at the end of 2024/25 of £13.851 million. This is around £0.43 million higher than the balance that was forecast when the budget was set in February.

The next few paragraphs highlight the main things to consider in relation to our future revenue budgets.

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Inflation and cost of living impacts

The UK (as well as many other countries) has seen a period of very high inflation. The Bank of England are forecasting that inflation (as measured by the Consumer Price Index) will return to around the 2% over the summer (2024) before a small increase later in the year. It then expects to be able to keep inflation at around the target level.

Overall there is evidence that inflation driven by wage growth is subsiding. But a series of below inflation pay increases for most Council staff does continue to affect what we should allow for pay inflation (see next section).

Pay inflation and pay competitiveness

The pay claim for 2024/25 has not yet been agreed. The NJC Trade Unions asked for a pay increase of the higher of £3,000 and 10 percent. In response, the National Employers have made a full and final offer of the higher of £1,290 and 2.5 percent. For 2024/25 we budgeted for an overall pay award equal to 4% of our pay budget. Whilst the employer offer is around that total, the NJC Trade Unions are indicating that they will reject the employer offer. There is a risk that the amount that is finally agreed will be higher than the amount allocated. That would then have an impact in 2024/25 and later years.

Our current estimate is that the pay increase for 2025/26 will be an average of 3%, and then in future years it will be 2%. This is against the assumption that inflation will be at 2%. The 3% increase in 2025/26 is higher than expected inflation due to:

- Forecasts are that the National Living Wage will increase by around 4% in April 2025. Whilst none of our staff are paid at the National living Wage level, increases at the lower end of the pay scales need to consider how close they are to the National Living Wage level.
- Local Government pay has seen a series of below inflation increases and there may need to be scope for some catching-up.

Many Councils are struggling to recruit and retain staff, and that includes us. Whilst we offer non-pay benefits and try and make the Council a good place to work (90% of our staff would recommend us a place to work), we know that our pay is not competitive. We also believe that we are not competitive compared to other Councils. We are going to use a Local Government Association tool to assess this, which will include understanding whether the non-competitiveness is uniform across all grades. Inflationary increases in pay will not help address this, even if they are slightly higher than any current inflation rate. We also know that the cost of addressing this is difficult to afford. Our pay bill is around £19 million, so every 1% increase is almost £190k. However, our staff are vital for the delivery of services.

It is recommended that we continue to assume an inflationary increase of 3% for 2025/26 and then 2% per year thereafter. However, alongside this, we should consider the impact of an exceptional increase in pay, and how that affects our overall budget position. We may also want to consider the impact of other significant non-pay benefits that would improve our ability to attract and retain staff.

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Contracted services inflation

As we have recently retendered both our waste and leisure contract, we have talked to bidders about the most appropriate inflation measures to use. For our waste contract, inflation continues to be based on a basket of pay, fuel and general inflation. Our leisure contract is based on general inflation, but with the Council taking the risks and rewards of fluctuations in energy prices.

Our other contracts have inflation clauses that are linked to general inflation.

Energy prices have stabilised, although they are higher than they were previously. There is the potential that they could decrease from current levels, but there is still a significant risk of increases given that they can be impacted by geopolitical factors. As there is no current Government policy, we have not made any budget assumptions around the levying of a Carbon Tax.

A new Materials Recycling Facility (MRF) contract needs to be procured. As this is still at an early stage, there is a risk around the cost of this contract. As with the current contract, there will be a risk throughout the contract as materials costs/ income are affected by both the volumes that are collected and prices on the global markets.

Overall, the assumption should be that contract inflation will track general inflation (as even pay and fuel inflation should align with general inflation over time), so is assumed to be 2%.

Increases in fees and charges, and impact on demand/ ability to pay

It has previously been decided that parking charges should be modelled on assuming a 2% increase each year. That is not a target increase, and actual increases will need to consider managing demand, cost of provision, encouraging modal shift away from private car use and supporting the vitality of town centres. This assumption of a 2% increase will be retained.

We will look at our current parking charge regime. Changes could include rebalancing parking charges so that they better manage demand for parking across our town centres and introducing car parking charges on Sundays, Bank Holidays and in the evenings.

Any significant changes to the charge regime will follow consultation with residents, as well as Community Forum discussion, and will be subject to a Cabinet decision.

We have set out plans to bring forward the date of implementation of parking price increases in each year, to reverse the delays (during the year) that arose following the Covid-19 pandemic. The planned implementation dates have been difficult to achieve with the cycle of meetings. So it is proposed that the 2024/25 increase be combined with the increase for 2025/26, and this will be implemented from April 2025. Thereafter increases would be applied in April each year.

Due to the cost of living impacts on our residents, we made a decision to change the garden waste charge to £49 for an extended 18 month period (up to April 2025). This will revert to being an annual charge from April 2025 onwards and, for budgeting (as set out in last years MTFS) is assumed to be at £49 per year for 2025/26 and then to increase in line with inflation thereafter. As part of the waste contract mobilisation, we will further review the contract costs with East Herts to seek alignment on an appropriate charge for 2025/26. This will be subject to a Cabinet decision. We will continue with having a concessionary discount for those that are less able to pay.

We believe that trade waste and the trade recycling market can bear increases in costs, and that we should be pricing in line with the wider market. The starting assumption is that increases in charges should be in line with forecast contract collection cost increases and disposal cost increases. This will be reviewed prior to April each year, and actual increases may be higher or lower.

Where fees and charges are set by regulation (e.g. planning fees) then the Council will set charges in line with those regulations. The assumption is that any ancillary charges will be increased in line with increases in general fees and charges.

All other fees and charges provide a relatively low amount of income. The target is that these fees and charges should recover the full cost of provision. Costs of provision are generally likely to increase with pay inflation. Therefore, the assumption will be that prices should increase in line with pay inflation estimates.

Our current assumption is that increases at these levels would not affect demand. For most of our services we seek payment in advance of receiving the service, so we are also not expecting an increase in levels of overdue debt.

Eligibility for Council Tax Reduction Scheme

The Council Tax Reduction Scheme (CTRS) determines who is eligible for a discount on their Council Tax bill. For pensioners there is a mandatory scheme set by Government. For working age residents, we can determine how any discounts are determined.

We moved to a banded scheme for working-age CTRS eligibility in April 2023. During the first year (2023/24) this resulted in an increase in the total value of support that was being provided. This was seen in the tax base calculations (the weighted number of properties that pay Council Tax), which decreased by 0.34%. Our budget assumptions are based on a net 0.5% increase in the tax base to reflect property growth. We actually expect the increase in properties to be higher as some of the Council Tax from each additional property will be used to fund the direct costs (i.e. waste collection) that we will incur.

Current data shows that the need for CTRS support has stabilised and is showing signs of reducing. It is looking like the tax base will achieve the targeted 0.5% growth for setting the 2025/26 budget. It is less likely that the 0.34% decline will be reversed for the 2025/26 budget, but it is assumed that this reversal will take place over the next 2 years. Depending how any funding guarantees are calculated this may lead to some short-term reductions in funding compared to forecasts, as previous funding guarantees have been based on an assumed level of tax base growth. These assumptions will be kept under review as CTRS eligibility is very uncertain.

Interest Rate changes

Our Treasury advisors are predicting (as of May 2024) that interest rates will start to fall in September 2024 and reach 4% by March 2025. They will continue to fall to around 3% by March 2026.

The returns on investing our surplus cash have been broadly in line with the Bank of England base rate, and we will assume that this continues.

When we set the budget for investment returns for 2024/25 we assumed average investment balances of £25.6 million and a 4.5% return. Due to slippage on both revenue and capital spend, the average balance across the year will be higher and the reduction in investment returns will also be slower. That means that our expected investment returns will now be around £1.35 million higher (as detailed in the revenue forecsats section above).

The rates for borrowing from the Public Works Loan Board (PWLB) are currently 5-6% across durations of up to 40 years. As the base rate comes down we would usually expect to see PWLB also drop, but this is not certain. We are not expecting to need to borrow externally in the short-term (for our existing capital spend) but if the need arises then we will assume interest costs of 5.5%.

Pension costs

The latest triennial valuation (for March 2022) was completed before the 2022/23 budget was set. That valuation set our pension contribution rates for the next three years up until 2025/26. Forecasts for 2026/27 onwards will be based on the current valuation.

Waste contract costs

We have recently completed the procurement of our waste and street cleansing contract. As part of the 2024/25 budget, we added in a prudent estimate of the cost of the vehicles, which in turn created an allocation in the revenue budget for Minimum Revenue Provision and the impact of lost investment returns. With that allocation, and the decisions made on service design, the contract price is expected to be in line with the revised budget (i.e., with the revenue effects of capital built in). There is still uncertainty in relation to:

- Costs are based on unit rates and volumes, so increases in volumes (e.g. number of properties, length of roads, number of fly-tips) will affect costs.
- Whether there be a need for, and the cost of, using survival bags for the collection of soft plastics.

Waste legislation changes

Government have previously consulted on a series of proposals in relation to waste collection. These include:

- Introducing consistent waste collection. This includes a requirement to collect separate food waste (which we already do) and soft plastics (which is built in to the specification for the new contract). There may be new burdens funding available for these changes, but we will only add that in to the budget when we have certainty over any amounts.
- Introduction of a Deposit Return Scheme (DRS), which could have an impact on what we collect at the kerbside. It is likely to mean that higher value recycling materials would be taken to deposit return locations, leaving us to collect the remainder. This would negatively affect the net costs of disposal for recycling materials. Due to the price risk that we already face for recycled materials, we have not built this into the budget projections.
- Extended Producer Responsibility (EPR), which places the financial burden for waste on those that are producing it at source. This could change the type and amount of waste that we need to collect as producers seek to reduce EPR liability, It may also produce additional income to fund new burdens. We do not expect it to generate additional net income for the Council. We expect that any additional EPR funding (that is not specifically linked to new burdens) will be off-set by reductions in general funding.

Housing growth, planning income and impact on tax base

The adoption of the Council's Local Plan means that there will be large new developments in the District. The precise timing of these developments is not known, and may be affected by the impacts of continuing high interest rates.

As these sites go through the planning process, they will generate significant planning income. Some of the capacity to deliver these has already been included in previous staffing growth bids. There will also be additional internal and external resource required. Where possible, the cost of short term external resources, and to a limited extent the internal resources, will be met through Planning Performance Agreements. However, these are voluntary agreements and cannot be required. The forecast cost of longer-term internal resources is forecast to be less than the additional income generated.

As part of the 2025/26 budget process we will develop a prudent estimate of additional planning income averaged over a number of years. Where there are over-achievements in early years, these will be put into a central reserve to enable the smoothing of any shortfalls in later years. When prudent, any balance in the reserve will be released back to the General Fund. The reserve will not be used to directly fund additional planning expenditure.

We have not fully assessed the impact on its costs of significant housing growth (beyond estimating additional waste collection costs). So, even though that housing growth will lead to a significant increase in the tax base, this is not assumed as additional Council Tax funding income. Instead (as detailed in the section on CTRS) average annual net 0.5% growth will be assumed.

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Capacity to deliver our priorities

Our new Council Plan sets out our vision and priorities for 2025-30. The Council Plan will continue to be supported by our Council Delivery Plan.

As detailed in the previous section on pay inflation, the Council is facing issues with staff recruitment and retention. The projects in the Council Delivery Plan for 2024/25 have been subject to prioritisation, and there are fewer of them. However there are still risks around delivery, particularly in relation to finances and Officer capacity. This is part of the reason why the Council Delivery Plan is reviewed on a quarterly basis by Overview and Scrutiny and Cabinet.

The table below details those projects that are in the current Council Delivery Plan (as reported to Cabinet in March 2024) and any further projects specifically referenced in the Council Plan. The table shows the financial implications of those projects in 2025/26 onwards

Project	Resources
Churchgate area regeneration	Overall expected that the scheme will be at least cost neutral in net revenue terms, including the revenue effects of any capital spend. The current spend to get to a viable scheme is being funded from the income generated by the current Churchgate leases. Project Management is from the Enterprise Team.
Waste and street cleansing contract	Following the award of the contract, the project will focus on the mobilisation of the new contract period in May 2025 and service changes from Summer 2025. There is likely to be additional budget required in 2025/26 for communications in relation to service changes, but this is not expected to be ongoing. Also need to procure a new MRF contract. Project Management is from the Waste Team.
Public Sector Decarbonisation Scheme- Leisure Centres	In July 2024, Council agreed the additional capital resource for this project. The revenue costs of capital are included as part of the forecasts for this Medium-Term Financial Strategy. Additional Project Management resource is in place.
Review of Local Plan	Assumed that this will be delivered from existing resources, including use of specific reserves. Project Management from the Strategic Planning Team.
Digital Transformation	Making use of specific reserves to fund some of the project management costs. The other implementation resource is coming from Customer Services and IT. Overall expecting that this will deliver net savings. As the amount is uncertain these are not budgeted for at this stage. Project Management from Customer Services and IT, with support from additional project resource.
Pay on exit parking	Capital resource has been allocated for new machines, which would have required replacement anyway. Assumed no impact on income generated, although there is a risk that it may change. Project Management from Strategic Planning Projects Team.
Engaging the community on our finances and how we spend our money	Expecting to deliver from existing staff resources and using existing Council communication tools. Being led by Communications and Finance teams.
King George V Skate Park	Expected to be completed by 2025/26.
Oughtonhead Weir	Expected to be completed by 2025/26.
Town Centre Strategies	Assumed that this will be delivered from existing resources, including use of specific reserves. Project Management from Strategic Planning Projects Team..
Residential/ Public EV charging	Expected to be completed by 2025/26.
Achieving net zero Carbon emissions	Our leisure centres make up around 45% of our scope 1-3 emissions. The Public Sector Decarbonisation Scheme therefore supports significant progress towards net zero. Within the new waste contract, all vehicles under 7.5 tonnes will be electric. We have a fixed-term Climate Change Project Manager and some funding in place. There are not currently any other specific capital budgets allocated for carbon improvements. The update to the Climate Change strategy will need to fully determine the measures required to achieve net zero and when they can be implemented in an affordable way.

Projects are generally managed by relevant Officers, in addition to their core role. This creates the potential for delays.

There is not currently any resource allocated for any new projects that are not listed above. Whilst these could be added as part of the budget setting process, the forecast section below determines that net savings need to be identified and delivered. Any discretionary cost increases will therefore increase the savings that have to be made in other areas.

Future funding from Government

Our funding is controlled by Government in the following ways:

- If we want to increase our Council Tax by more than a certain amount, then we must hold a referendum. Government set this limit each year and last year it was the greater of 2.99% or £5 on a band D property (with the other bands increased in proportion). In previous years it was 1.99% or £5.
- They set how much of the Business Rates that we collect that we can retain.
- They determine how funding from New Homes Bonus works. This is a reward to councils for encouraging the building of new homes.
- They can allocate other general funding and grants.

There was supposed to be a significant change to the way that we and other local authorities were funded. This would have included a new funding formula and a change to how much of the Business Rates that we collect we could retain. It is now expected that the earliest that this change will be introduced will be 2026/27, with consultation during 2025/26. This reflects the commitment from the new Labour Government that there is a need for longer term funding reform and certainty, but that it is not practical to achieve this any earlier than 2026/27.

We had been told that in 2019/20 our funding from Business Rates would be cut by over £1m. This had become known as negative RSG (Revenue Support Grant). This cut in funding has not yet taken place. When a new funding formula is introduced, we are working on the assumption that it will be broadly in line with the formula that determined we should have a negative RSG imposed upon us. Although the assumption is that the cut will be £1m, rather than being inflated from the 2019/20 total. Also, assuming that it would be phased in other two years, with half the impact (£0.5m) in the first year (2026/27). Whilst the new Labour Government have recognised the funding pressures on Councils, they have also tied any funding increases to economic growth, which would take time to deliver.

We currently provide our Parish, Town, and Community Councils with a total of £39k of funding, in addition to what they raise through their precepts. This was initially linked to the localisation of Council Tax support (CTRS). Our policy has been that this support should reduce in line with the funding that we receive from Government. The amount that each Council receives is very small and could be covered by a small increase in their precept.

The Government had consulted on changes to New Homes Bonus. There was not any indication of which option would be adopted. The assumption is that New Homes Bonus will continue for one more year. However, this is somewhat superseded by guarantees in relation to Core Spending Power.

The Councils ‘Core Spending Power’ (a measure of funding determined by Government) is made up of the following:

- Baseline retained Business Rates
- Council Tax
- New Homes Bonus
- Other general grants

For 2024/25 the Council's Core Spending Power is £18.4m. In 2024/25 there was a guarantee from Government that core spending power (before the impact of Council Tax rate increases, but after an assumption on growth in the base) would increase by at least 3%. Where this was not going to be achieved through other funding, Councils received additional grant funding. We received a grant for this of £1.2m.

To reflect the Government's intention to increase Council funding but acknowledging the need to link it to economic growth. For the next three years after this one (up to and including 2027/28) we will assume that Core Spending Power will increase by at least 1% each year, even where negative RSG is applied. From 2028/29 onwards we will assume that there is capacity for funding to track to track inflation (assumed to be 2% per year).

Council Tax

For the purposes of this medium-term forecast, we will assume that our Council Tax base for 2025/26 will be based on the current tax base data. This will be updated as part of the detailed budget setting for 2025/26. For subsequent years, we will assume that a net tax base growth of 0.5% per year. The actual growth is expected to be higher, but some of the additional income will be needed to provide services to the new properties (e.g. waste collection).

We are assuming that Government will allow Council Tax increases for 2025/26 (and all subsequent years) by up to 1.99% without the need for a local referendum. In calculating the funding that is available, Government assume that councils will increase their Council Tax by the maximum available. To do as much as we can to maintain our service provision, we will increase our Council Tax by the maximum possible, without the need for a referendum.

For each year it is likely that there will also be the provision for Council Tax increases of £5 for a band D property (other bands pro rata), even if this is more than the stipulated percentage. The Council's tax rate is now at a level where the percentage increases will be higher than the £5 increase.

Our reserves

We are required to make sure that we have a certain level of reserves when we set our budget. This is to provide protection against known and unknown risks. This includes us being able to react to changes in demand and any emergencies that may arise. Our allowance of known risks is based on estimating the monetary impact of an event happening and applying a percentage to this, based on the likelihood of it happening (high, medium or low). Our allowance for unknown risks is based on 5% of net expenditure and 3% of budgeted income (excluding Housing Benefit). For 2024/25 this gave a minimum balance of £2.46m. It is assumed that there will need to be some growth in this minimum level to reflect inflation, so a minimum of £3m will be assumed.

We will plan to use our reserves to smooth some of the impact of the savings that we are forecasting that we need to deliver. We will also plan to retain reserves to give us time to respond to the further uncertainties that are detailed in this strategy. In planning our future budgets, we need to make sure that we stay safely above the minimum General Fund level.

We have a Business Rates grant reserve. Government provide businesses with various Business Rate reliefs and provide us with funding to cover them. Due to the way that Business Rate income is dealt with, we often receive the funding earlier than the actual impact on our accounts. So, the funding is put into a reserve until it is needed. We also gain from our Business Rates being above a current baseline level and we get even higher gains when we are part of a Business Rates pool. These amounts are not certain enough to include in our ongoing budget estimates, so they are also put into the reserve. As of 1st April 2024 the balance on this reserve was £5.74 million. We are already planning to use £1.86 million during 2024/25 and 2025/26 to help balance the budget. The 2023/24 year-end revenue monitoring report identified that we need to fund a levy of just over £0.5m. It is also prudent to set aside £1m for fluctuations in Business Rates income. That leaves a further £2.3m that can be used to cover any funding shortfalls in the medium-term before there is a need to draw-down on General Fund balances.

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Capital spend

The capital budget for 2024/25 that was set by Council in February was:

	£ 000
Total capital spend	22,633
Funded from capital receipts	(2,155)
Funded from grants	(8,106)
Funded from s106	(467)
Funded from other contributions	(48)
To be funded from borrowing	11,857

Since the budget was set we have updated our forecasts for up to the end of Quarter 3 (23/24), end of year (23/24), reports on leisure centre capital and Quarter 1 (24/25). Although there has been significant capital slippage this does not affect the overall medium-term position. The decision to progress with the substantial decarbonisation of our leisure centres using the Public Sector Decarbonisation Scheme (PSDS) and our resources has increased our capital spend. As well as the revenue implications of the capital spend (see below) we also need to allow for:

- The estimated termination costs for the Combined Heat and Power agreement
- Energy savings being less than expected. The 2024/25 budget assumed that the energy savings would be equal to the Council's revenue cost of capital for the element of the project that we would be funding (i.e. not using the PSDS grant). The revised estimate is that the savings will be around £32k in total.

As detailed below (under 'Addressing our funding gap') we need to make sure that we review our capital budgets as much as our revenue budgets.

Revenue impacts of capital spend

When we have capital reserves/ capital receipts to fund our capital spend then we spend the cash on the capital. We then lose the interest that we would have earnt on having that cash.

When we run out of capital reserves then the following happens:

- We still have to spend cash to pay for it. That either comes from the cash that we already have and we lose the interest on investing that cash (known as 'Internal Borrowing'). Or we borrow externally and pay the lender interest. Eventually the vast majority of our borrowing would be external borrowing.
- We also need to make a charge to our revenue budget to reflect that we have an asset that is unfunded (i.e. we have not paid for it with past reserves or the current year's budget). This charge ensures that current taxpayers are paying towards the assets that are being used to provide services to them now, rather than creating an ever-increasing debt that falls on future taxpayers. This is called Minimum Revenue Provision. The annual charge is based on the cost of the asset and the useful life of the asset.

For forecasting purposes we are assuming that the interest element (either lost interest income or external borrowing costs) will be 5%. Minimum Revenue Provision will be based on the useful life of the relevant asset. For buildings (which would be assumed to have a useful life of around 40 years) that means a revenue cost of capital of 7.5% per year. For a waste collection vehicle (useful life of 8 years) it means a revenue cost of capital of 17.5% per year.

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Our future forecasts and savings required

The table below summarises our estimates of our spend and funding over the next 5 years. Any ongoing gap between funding and net expenditure needs to be covered by savings (which includes efficiencies, income generation and service change). Short-term gaps can be met by use of reserves. Although it must be appreciated that reserves can only be spent once. The timing of the delivery of savings is based on:

- Trying to delay decisions until we have a better understanding of our future funding.
- Allowing time for consultation on where we should target any savings.
- Preserving our reserves as best we can to promote financial resilience.

Most of the assumptions in the previous sections are the same as previous estimates. Where specific changes have been referenced these are detailed in the table below.

£ 000	**Current year 2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**
General Fund balance at the start of the year	14,057	13,851	12,625	11,942	11,237	11,112
Less: How much we plan to spend during the year on existing services (before making savings)	(20,139)	(21,576)	(20,586)	(21,133)	(21,333)	(21,620)
Add: Revenue cost of capital for Leisure Centre PSDS	0	(450)	(450)	(450)	(450)	(450)
Add: Our expected funding during the year	18,206	18,370	18,553	18,738	19,158	19,535
Add: other reserves that we plan to use to fund our expenditure: Previously identified Additional	1,727	130 2,300	0 0	0 0	0 0	0 0
Add: additional net savings that we need to deliver (cumulative)	0	0	1,800	2,500	2,500	2,500
Equals: General Fund balance at the end of the year	13,851	12,625	11,942	11,237	11,112	11,077

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Addressing our funding gap

The table above shows the estimated savings that we need to deliver to achieve a balanced budget in the medium-term. The total of £2.4m is an estimate only and could be significantly be affected by a number of factors. The most relevant of these are:

- How soon our funding can go back to tracking inflation.
- The level of pay inflation required in 2024/25 and future years.
- Whether we need to further increase pay to attract and retain staff so that we can deliver our services and priorities.
- The costs of a new Material Recovery Facility contract.
- The extent to which grant funding supports us in delivering net-zero by 2030.
- The extent to which any other new priorities can be supported by grant funding or delivered with existing resources. Noting that the capacity to take on additional work would need to come from stopping doing something else and/or making it a lower priority.

Savings could mean any of the following:

- Being able to deliver our existing services at a lower cost. The use of technology and automation may enable to do this in some areas. But generally, the savings that we have delivered across a number of years have been through efficiencies, meaning that there are fewer opportunities left.
- Being able to generate additional income from services that we are able to charge for, less any costs in providing that additional level of service.
- Being able to generate income from commercial activities. The opportunities to do this are limited by economic conditions and government policy. We also need to make sure that these activities are in line with our priorities.
- As capital expenditure comes with a revenue cost, reviewing our capital programme to ensure it reflects priorities and is deliverable.
- Reducing the level of services that we provide, or no longer providing services that we are not required to provide. Whilst we would always want to avoid this, we have to consider the overall sustainability of our Council.

Timing of savings and budget consultation

The level of our reserves gives us some time to identify and deliver savings. Ideally we would like to have greater certainty over our future funding and then consult with our residents before implementing any savings proposals. Our intention had been to do this over the summer, but we couldn’t do it over the general election. Our revised plan is that we will do it in early summer 2025 and use our business rates and general reserves to help balance the budget in the interim period. If we identify any further budget pressures (i.e. areas where costs need to increase on an ongoing basis) then we will need to identify savings to off-set these.