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# Medium-Term Financial Strategy 2025/26 - 2028/29

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<b>Committee considering report:</b>	Council
<b>Date of Committee:</b>	27 February 2025
<b>Portfolio Member:</b>	Councillor Iain Cottingham
<b>Date Head of Service agreed report:</b>	17 January 2025
<b>Date Portfolio Member agreed report:</b>	30 January 2025
<b>Report Author:</b>	Shannon Coleman-Slaughter
<b>Forward Plan Ref:</b>	C4633

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## 1 Purpose of the Report

- 1.1 The purpose of the Medium-Term Financial Strategy (MTFS) is to determine financial planning assumptions for future years and align these with the Council Strategy to ensure that the strategy will be delivered. The MTFS highlights the overarching key issues facing the Council's finances and references the many different scenarios and wider uncertainties concerning the Council's future revenue streams.
- 1.2 The full MTFS is in Appendix A

## 2 Recommendation

- 2.1 It is recommended that Council approve the Medium-Term Financial Strategy (MTFS) in Appendix A.

## 3 Implications and Impact Assessment

<b>Implication</b>	<b>Commentary</b>
<b>Financial:</b>	All finance information is detailed in the report
<b>Human Resource:</b>	None arising directly from the proposal
<b>Legal:</b>	None arising directly from the proposal

<b>Risk Management:</b>	Adopting a Medium-Term Financial Strategy supports the effective management of the use of the Council's financial resources in a volatile and challenging environment			
<b>Property:</b>	None but to note consistency with the Capital Strategy			
<b>Policy:</b>	The MTFS' purpose is to assign financial resources to deliver the Council Strategy			
	<b>Positive</b>	<b>Neutral</b>	<b>Negative</b>	<b>Commentary</b>
<b>Equalities Impact:</b>				
<b>A</b> Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
<b>B</b> Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
<b>Environmental Impact:</b>		X		
<b>Health Impact:</b>		X		
<b>ICT Impact:</b>		X		
<b>Digital Services Impact:</b>		X		

<b>Council Strategy Priorities:</b>	X			See policy comment above – the MTFS should enhance the delivery of the Council Strategy through aligning resources to it
<b>Core Business:</b>		X		
<b>Data Impact:</b>		X		
<b>Consultation and Engagement:</b>	Corporate Board Budget Board			

## 4 Executive Summary

- 4.1 Unlike the Capital Strategy and Investment and Borrowing Strategy, the Council is not required to establish a Medium-Term Financial Strategy (MTFS). However, it is a matter of best practice to undertake longer term financial planning in support of the annual budget setting process. The Council is not formally required to approve the MTFS but should have consideration of the MTFS whilst approving annual budget papers.
- 4.2 In past financial years the Council has delivered substantial savings (£28.9million in financial years 2022/23 and 2024/25 collectively). The Council has a strong track record of generating savings and prudent financial management. However, in the period following the end of the Covid-19 pandemic, and subsequent high inflation and interest rates, the Council (consistent with other UK Local Authorities) has noted increased social care demands and has experienced funding restrictions. The graphic below details the growth in social care budgets during the past three financial years:

Net Revenue Budget Provision	Net Budget		
	2022/23	2023/24	2024/25
Adult Social Care	£55,175,190	£63,054,780	£69,682,300
Childrens Social Care	£23,091,000	£25,423,380	£28,167,950
Home to School Transport	£3,006,660	£3,502,980	£4,123,080
<b>TOTAL</b>	<b>£81,272,850</b>	<b>£91,981,140</b>	<b>£101,973,330</b>
Council Net Revenue Budget	£148,605,930	£159,520,470	£164,610,440
ASC, CSC and HTST% of net revenue budget	54.7%	57.7%	61.9%

- 4.3 The Council's ability to deliver capital programmes has been constrained by a high-interest rate environment, with Public Works and Loan Board (PWL) rates on average being around 6% compared to a historic 2-3% average. Although capital is not charged directly to the revenue budget, the financing of capital (i.e. capital financing costs) is chargeable to revenue. Financial years 2024/25 (actual) and 2025/26 (proposed) have required significant investment within the revenue capital financing budget to enable delivery of key capital projects, such as enhancements to the educational estate across the district and main infrastructure.

- 4.4 The Council's requirement to borrow for delivery of the capital programme has increased in 2024/25 (actual) and 2025/26 (proposed), through financial pressure building in the Delegated Schools Grant (DSG) High Needs Block. The High Needs Block funds special educational needs provision across the district. A significant deficit (overspend) is forecast against the High Needs Block (HNB) by 31.3.2025 (£17.5m) and is forecast to increase further by 31.3.2026 to £30.0m. Although the DSG and HNB are not directly chargeable to revenue (DSG is a ringfenced grant), a statutory accounting override currently allows for the deficit to be held within the Council's Balance Sheet as an unusable reserve (reserve held for accounting adjustments and not used to support service delivery). The HNB deficit has effectively eroded working capital in the Council's Balance Sheet (financial resources deployable in the delivery of services including capital projects), thus increasing the Council's borrowing (debt) requirement. The HNB statutory override remains in place until 31.3.2026 at which point the full deficit becomes chargeable to the Council's General Fund. The impact of the override being removed has not been factored into the MTFs, as no withdrawal has been confirmed by Central Government. It should be noted that any removal of the statutory override without a longer-term reform of HNB funding will result in the immediate issue of a s114 notice. This position is a significant concern at a national level, affecting all Local Authorities with HNB deficits.
- 4.5 To mitigate the key financial pressures above, the Council has embarked on a significant transformation programme with a view to driving efficiencies across services and supporting the revenue budget. To that end, a revised Property Investment Strategy was approved in February 2024 which enabled the Council to disinvest from the commercial property portfolio, allowing for the generation of capital receipts to support capital financing (reducing high cost borrowing needs). The transformation programme can now be financed by applying flexible use of capital receipts legislation.
- 4.6 The MTFs, Capital Strategy and Investment and Borrowing Strategy outline the proposals for financial year 2025/26 and the remaining duration of the MTFs (2026/27-2028/29). These strategies and the separate 2025/26 Revenue Budget paper highlight an organisation experiencing financial distress. The Council has been operating for the last two financial years with comparatively low general reserves (as a percentage of planned expenditure) and has not sought additional financial support. Some 19 councils across the country have requested exceptional financial support from Central Government in response to escalating financial pressures. Financial year 2024/25 has seen social care budgets, alongside the escalating HNB deficit, deplete the Council's General Fund to a level that is unsustainable (an estimated £3.4m-£3.9m as at 31.3.2025). Following the conclusion of rigorous savings identification exercises, the Council is unable to set a balanced budget without seeking financial support from Central Government. A request for such financial support was submitted on Thursday 9 January 2025. Without approval of this support or alternatively a robust plan of efficiencies provided for review to the Executive, the s151 officer will be required to issue a s114 report.

## 5 Supporting Information

### Medium-Term Financial Strategy (MTFS)

- 5.1 The MTFs highlights the financial planning, high level proposals, and sensitivity analysis that underpins the financial resources which deliver the Council Strategy.

- 5.2 The MTFS is subservient to the Council Strategy, but in its own right attempts to provide the financial planning framework for future years as well as acting as a guide to the organisation in developing projects and schemes to deliver financial balance and the Council Strategy.
- 5.3 The MTFS looks to a four-year horizon, sufficient to provide some stability during an increasingly volatile financial future, but short-term enough to ensure that the first year represents the budget proposals for 2025-26, and for the next three years there are a variety of themes included which form the basis of future savings areas. The MTFS also includes detail on financing the capital strategy and how the scale and profile of the strategy has had an impact upon the Council's end financial position.
- 5.4 The proposed MTFS details a total funding gap for financial year 2025/26. A range of savings and income generation proposals are appended to the separate 2025/26 Revenue Budget paper. Further to this, Executive Directors and Service Directors have been charged with collating plans for delivery of the efficiency target via review of the Council's revenue-funded establishment, alongside commissioning and non-commissioning budgets, with a view to implementation from Autumn 2025. A significant funding gap remains, accounting for all identified savings and allocated targets. On 9 January 2025, the Council wrote to the Ministry of Housing, Communities and Local Government (MHCLG) to request exceptional financial support. A request for £16m was tabled with a view to supporting in-year expenditure pressures (detailed in the Council's Q3 Financial Performance Reports), bridging the funding gap for 2025/26 and enhancing the Council's reserves. Reserves are forecast to be within the region £3.4-£3.9m at 31.3.2025, with a further £2.3m draw down required in 2025/26 to support the 2025/26 revenue budget, effectively reducing the General Fund to £1.6m, equating to less than one day of spend compared to the net 2025/26 revenue budget requirement.
- 5.5 Full details of the MTFS are included in Appendix A.

## **6 Other options considered**

The Council could consider not adopting a MTFS and focus on the financial position for the financial year ahead, but this strategy is not recommended as it would prevent longer-term financial planning and will have a negative impact upon the delivery of the Council Strategy.

## **7 Conclusion**

The Council's proposed MTFS clearly documents an organisation in financial stress. The Council sought £16m financial support from Central Government on 9 January 2025. If this support request is not approved, a robust plan of deliverable efficiencies to be presented to the Executive for review, both bridging the 2025/26 revenue budget gap and building resilience into the General Fund, will be required to avoid the risk of a s114 notice being issued.

## **8 Appendices**

- 8.1 Appendix A – Medium-Term Financial Strategy Financial Years 2025/26 – 2028/29

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**Background Papers:**

None

**Subject to Call-In:**

Yes:  No:

The item is due to be referred to Council for final approval

Delays in implementation could have serious financial implications for the Council

Delays in implementation could compromise the Council's position

Considered or reviewed by Scrutiny Commission or associated Committees, Task Groups within preceding six months

Item is Urgent Key Decision

Report is to note only

**Wards affected:** All

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