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| Council | DATE: 24 July 2024 | ITEM NO: 13 |
| TITLE Medium Term Financial Strategy 2025/26+ update | WARD (S) All | |
| CHIEF OFFICER Director of Finance | CABINET MEMBER Finance, Resources and Social Value | |
| DECISION CLASSIFICATION Key Non-exempt report | IS THE FINAL DECISION ON THE RECOMMENDATIONS IN THIS REPORT TO BE MADE AT THIS MEETING? Council 24 July 24 | |

I. Decisions required

Council is requested to:

- 1.1 Note a forecasted £27.3m overall resourcing gap in 2025/26, increasing substantially each year thereafter (Section 7)
- 1.2 Note the potentially significant financial risks to the MTFS going forward (Section 6)
- 1.3 Note that the MTFS is a continuous process and will be updated on a regular basis

2. Links to Our Greenwich missions

- 2.1 This report relates to the delivery of all of the high-level missions contained within the Royal Greenwich Strategy.
- 2.2 This report relates to the Council's agreed missions as follows:
 - People's health supports them in living their best life
 - People will not experience discrimination
 - Those in financial need can access the right support, advice and opportunities to improve their situation
 - Children and young people can reach their full potential
 - Everyone in Greenwich is safer, and feels safer

- People in Greenwich have access to a safe and secure home that meets their needs
- It is easier, safer and greener to move around the borough and the rest of London
- Development delivers positive change to an area for existing and new communities
- Neighbourhoods are vibrant, safe and attractive with community services that meet the needs of local residents
- Greenwich plays an active role in tackling the climate crisis and improving environmental sustainability, in line with our commitment of being carbon neutral by 2030
- Everyone has the opportunity to secure a good job
- Town centres, high streets and shopping parades are vibrant, prosperous, well-maintained places that meet the needs of local people
- Our economy attracts new high value businesses whilst strengthening its foundations
- The voluntary, community and socially motivated sectors in Greenwich are strengthened and able to provide more support to the most in need
- Our Council is better at listening to communities, and communities feel they are heard
- We develop networks with communities, key partners and businesses to meet need and address challenges together
- We design our services around the needs of our residents
- Our Council is an adaptive organisation, enabling it to navigate the increasing number of challenges it faces while remaining financially sustainable
- Our Council works in the most efficient and effective ways possible
- Our Council is a great place to work, with a diverse workforce who have the right skills and are motivated and empowered to deliver

3. Purpose of Report and Executive Summary

- 3.1 This report provides an update on the Medium Term Financial Strategy (MTFS) for the Authority for the next four years (2025/26 to 2028/29). The MTFS balances the financial implications of objectives and policies against constraints in resources and provides the basis for decision making.
- 3.2 The strategy identifies a forecast 2025/26 budget gap of £27.3m, increasing substantially each year thereafter to £116.9m by 2028/29, subject to delivery of savings. This is primarily driven by:

- demand led services through a combination of demand and price increase in those areas
- a forecast lack of government funding.

3.3 The two greatest impacts on forecasts are likely to come from the two variables above.

3.4 Forecasts beyond one year are more sensitive to change and likely to vary greatly over time (e.g. any actions undertaken or events occurring now will have a profound impact upon future year numbers).

4. Introduction and Background

March 2024 MTFS Summary

4.1 The most recent MTFS report was presented to Council on 06 March 2024. The report set out the forecasted budget position for the Authority between 2024/2025 and 2027/28. The report showed a balanced budget for 24/25 and a budget gap of £26.8m in 25/26, increasing to £54.2m in 27/28.

Table 1 March 2024 MTFS Report:

| MTFS Variable (£m) | 24/25 | 25/26 | 26/27 | 27/28 |
|--------------------------------|---------------|---------------|---------------|---------------|
| Govt Funding Change | (12.6) | (6.5) | (4.9) | (4.9) |
| Inflation | 25.3 | 43.1 | 58.2 | 71.9 |
| Freedom Pass | 0.0 | 0.9 | 2.7 | 2.7 |
| Rethinking Savings | 15.0 | 15.0 | 15.0 | 15.0 |
| Structural Deficit | 19.0 | 19.0 | 19.0 | 19.0 |
| Capital Programming | 0.0 | 2.8 | 2.8 | 2.8 |
| Expenditure Pressures | 46.7 | 74.3 | 92.8 | 106.5 |
| Income – Ctax Property Growth | (1.1) | (2.4) | (3.6) | (4.8) |
| Income – Fees & Charges | (2.0) | (2.0) | (2.0) | (2.0) |
| Second Homes Premium | (0.0) | (0.8) | (0.8) | (0.8) |
| Total | 43.6 | 69.1 | 86.4 | 98.9 |
| Savings and Investment: | | | | |
| Previously Agreed Savings | (8.6) | (8.6) | (8.6) | (8.6) |
| New Savings Proposals | (33.7) | (32.4) | (35.3) | (34.8) |
| New Savings Risk | 3.3 | 3.3 | 3.3 | 3.3 |
| New Ongoing Investments | 1.4 | 1.4 | 1.4 | 1.4 |

| | | | | |
|---------------------------|--------------|--------------|--------------|--------------|
| Council Tax 4.99%: | (6.0) | (6.0) | (6.0) | (6.0) |
| Net Budget | 0.0 | 26.8 | 41.2 | 54.2 |

4.2 In order to update the MTFS, the March 2024 position has been rebased in order to show 25/26 as the base year.

Table 2 - March 2024 MTFS Table Rebased from 25/26 onwards:

| MTFS Variable (£m) | 25/26 | 26/27 | 27/28 |
|-------------------------------|--------------|--------------|--------------|
| Govt Funding Change | 6.1 | 7.7 | 7.7 |
| Inflation | 17.8 | 32.9 | 46.6 |
| Freedom Pass | 0.9 | 2.7 | 2.7 |
| Capital Programming | 2.8 | 2.8 | 2.8 |
| Expenditure Pressures | 27.6 | 46.1 | 59.8 |
| Income – Ctax Property Growth | (1.3) | (2.5) | (3.7) |
| Second Homes Premium | (0.8) | (0.8) | (0.8) |
| Total | 25.5 | 42.8 | 55.3 |
| New Savings Proposals | 1.3 | (1.6) | (1.1) |
| Net Budget | 26.8 | 41.2 | 54.2 |

4.3 As at March 2024 the central forecast contains the following significant assumptions:

- council tax property growth of approximately 1% in each year
- introduction of a 100% council tax premium on second home dwellings.
- government funding based on the Local Government Finance Settlement for 2024/25.
- no information for confirmed government funding for 2025/26 onwards. Current forecasts include an approximate 1.5% reduction in Settlement Funding Assessment until 2026/27.
- annual inflation of £17.8m included for 2025/26, which reduces to £13.7m annually in 2027/28.
- savings targets are met.

5. Updates to Government Funding

5.1 Since the March 2024 MTFS report, there have been no significant updates to core funding provided to Local Authorities for 2025/26 onwards.

- 5.2 The Local Government Association (LGA) published the Local Government White Paper on 05 June 2024 assessing the current nationwide issues facing Councils.
- 5.3 The LGA's modelling of councils' future cost pressures and income estimate that councils face a funding gap of £2.3 billion in 2025/26 and £3.9 billion in 2026/27. These gaps relate to the funding needed just to maintain services at their current levels.
- 5.4 The significant challenges Councils face due to funding levels are highlighted by an LGA survey following the 2023 Autumn Statements which showed that one in five Council Leaders and Chief Executives felt they are at risk of receiving a Section 114 report this year or next.
- 5.5 Individual local authorities receive core grant allocations via the Local Government Finance Settlement. In recent years this has been provisionally released in December preceding the following financial year (final grant allocations confirmed in the February). 2024/25 was the sixth one-year settlement in a row for councils which continues to hamper financial planning and their financial sustainability.
- 5.6 On behalf of local authorities, the Local Government Association continue to make the case for multi-year settlements and for more long-term certainty around funding and budgets.

6. Risks Looking Ahead

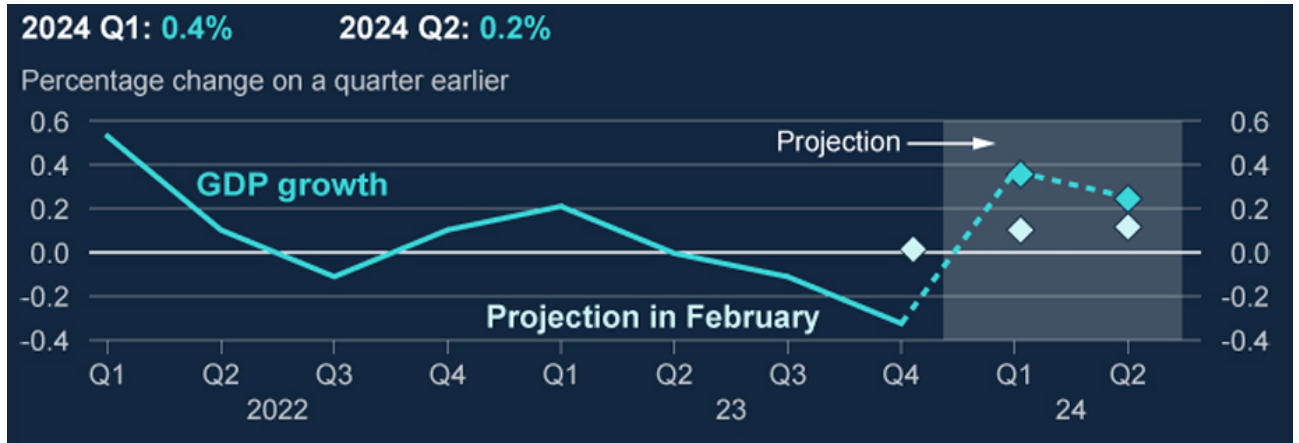
National Economic Position

- 6.1 The UK Economic Position impacts the delivery of the services throughout the council in multiple ways. The performance of the UK economy can affect the Government funding received and the costs incurred to deliver council services. The key national economic indicators are summarised below.

Gross Domestic Product (GDP) Growth

- 6.2 UK GDP contracted in the second half of last year. However, in the recent Bank of England (BoE) Monetary Policy report, growth is now expected to be firmer in the first half of 2024, estimated at 0.4% in Q1 2024. This is an improvement from the data reported in the March 2024 MTFS report which forecast only a 0.1% growth in 2024 Q1 GDP. This is supported by rising real incomes.

Chart 1: Gross Domestic Product Rates 2022-2024

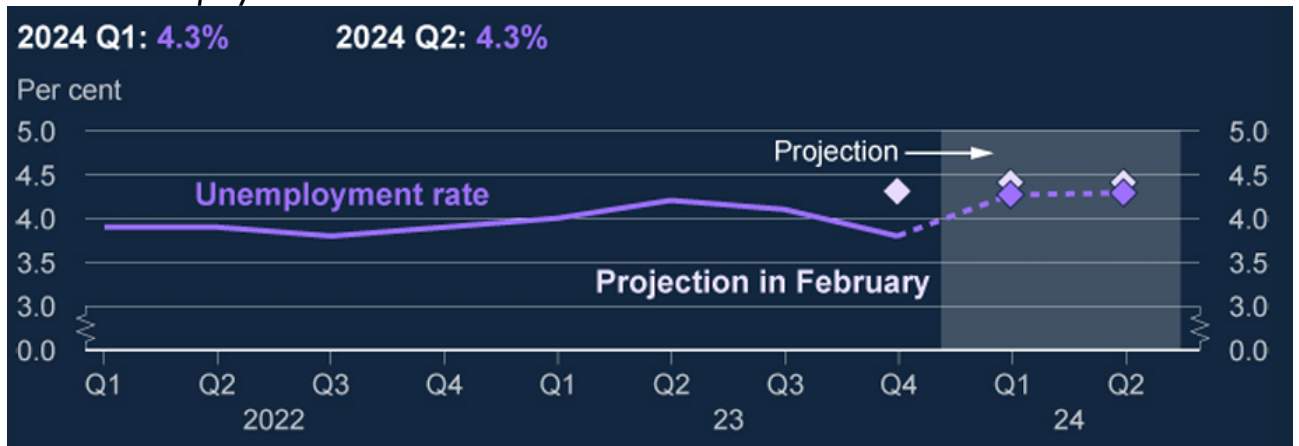


Source: BoE Monetary Policy Report May 2024

Unemployment Rates

6.3 The unemployment rate is expected to remain around historically low levels in the near term, this is broadly in line with the forecasts in the March 2024 MTFS report.

Chart 2: Unemployment Rates 2022-2024

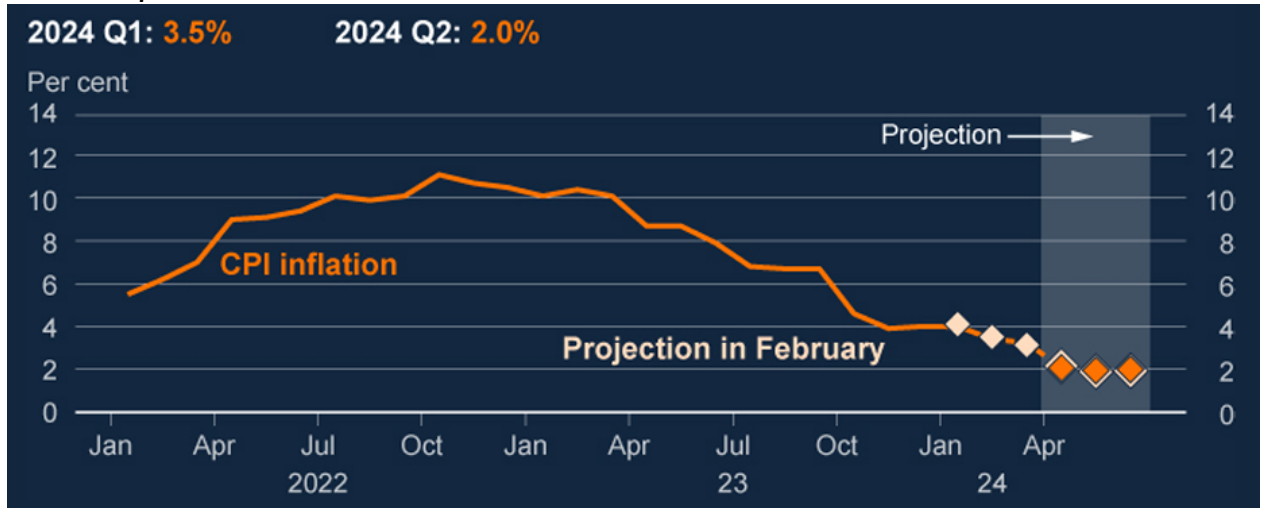


Source: BoE Monetary Policy Report May 2024

Inflation

6.4 The Consumer Prices Index (CPI) rose by 2.0% in the 12 months to May 2024, this reflects a reduction in the annual increase compared to the April 2024 annual rate of 2.3%. The largest downward contribution to the monthly change in CPI annual rates came from food, with prices falling this year but rising a year ago; the largest upward contribution came from motor fuels, with prices rising slightly this year but falling a year ago. The April 2024 CPI rate is broadly in line with the forecasts contained within the March 2024 MTFS report presented to Council.

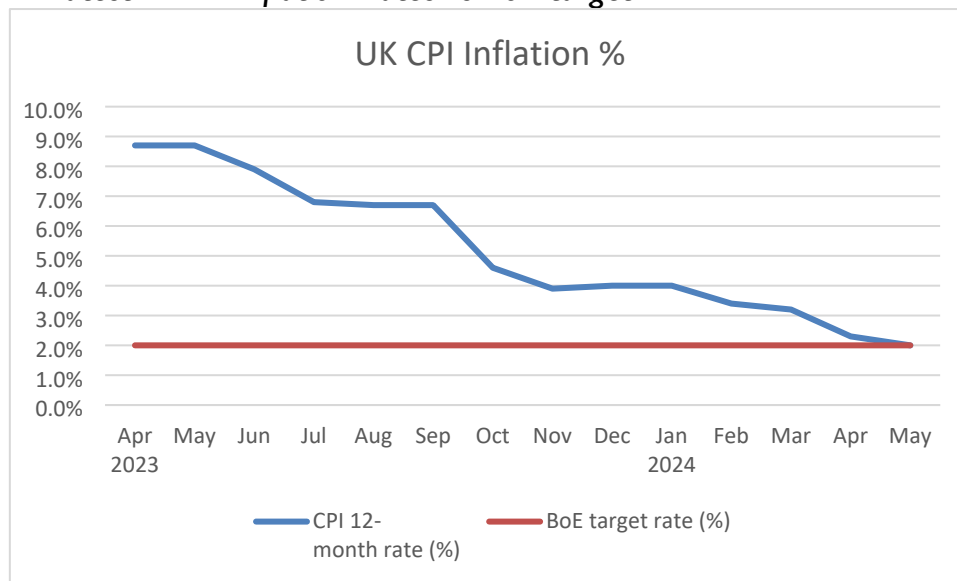
Chart 3: Inflation Rates 2022-2024



Source: BoE Monetary Policy Report May 2024

6.5 The Bank of England have set an annual inflation target of 2% The graph below shows the last 12 months CPI Inflation rate reducing steadily towards meeting the target rate in May 2024.

Chart 4: Latest CPI % Inflation Rates vs BoE target



6.6 Looking ahead, the Bank of England Monetary Policy Committee (MPC) carried out a survey amongst a range of economic forecasters to project future GDP, Unemployment and Inflation rate forecasts for the next three years.

Chart 5: 2025-2027 economic forecasters' projections



Source: BoE Monetary Policy Report May 2024

6.7 Across the next three years, external forecasters expected key economic data indicators remaining relatively stable over the medium term. In quarter 2 of 2025, GDP growth is expected to be 1.4%, the unemployment rate to be 4.2%, and CPI inflation to be 2.1%:

| | Q2 2025 | Q2 2026 | Q2 2027 |
|----------------------|------------|------------|------------|
| GDP | 1.10% | 1.40% | 1.40% |
| Unemployment | 4.40% | 4.30% | 4.20% |
| CPI Inflation | 2.20% | 2.10% | 2.10% |

Local Government Finance Reform

6.8 Local Government has been awaiting funding reform since the original planned 2019/20 implementation and has been repeatedly deferred. Most recently this was deferred to 2025/26, however the upcoming General Election adds increased uncertainty to the timing and the nature of this reform.

6.9 On the 1 February 2024, the Levelling Up, Housing and Communities Committee published the “Financial distress in local authorities” report. The cross party departmental select committee’s inquiry sought to investigate why there has been such an increase in the number of local authorities unable to meet its spending commitments from its available sources of funding (issuing section 114 notices) and what the Government is doing to address this.

- 6.10 The report identified local authorities have seen significant reductions in their spending power, which has coincided with increasing demand for their services and inflationary pressures exceeding those in the wider economy. Recent funding settlements, while increasing in cash terms, have not kept pace with these pressures leading to a downward spiral. The prospect of further real terms funding cuts is likely to exacerbate existing concerns about systemic underfunding.
- 6.11 The report made the following conclusions in respect of funding reform:
- The Government must also set out what longer term support will be provided to local authorities if the funding gap is not fully met in the forthcoming financial settlement.
 - Increasing the referendum threshold for council tax in the short term at least in line with a relevant measure of inflation. In the longer term it is recommended the Government considers removing the threshold entirely.
 - Urgent reform of both the council tax and business rates system.
 - Local authorities' use of capital funding for revenue expenditure is not sustainable and at best it can only be a temporary solution to short-term financial pressures. The report recommends extensions of any additional capital funding flexibilities are limited to invest-to-save activity only.
 - A renewed recommendation that the Government implements the business rates reset and Fair Funding Review. This should include transitional arrangements to ensure stability in funding levels after reset and review. The Government must commit to a fundamental long-term review of the business rates system to ensure business taxation is fit for a modern economy.
- 6.12 There is a risk that these reforms will be significant, affecting the way local government resources are allocated at both the national and local level. There is a possibility that that these reforms mean local government resources are relocated away from London.
- 6.13 Whilst the Autumn Statement in 2023 announced that government wide departmental expenditure budgets will increase by 1.0% in real terms over the medium term to 2028/29, the implication is that there will be real-terms cuts for unprotected departments, including local government, averaging 3.4%. This is shown below in the graph published by The Institute for Fiscal Studies in their February 2024 report "The context for the March 2024 Budget".

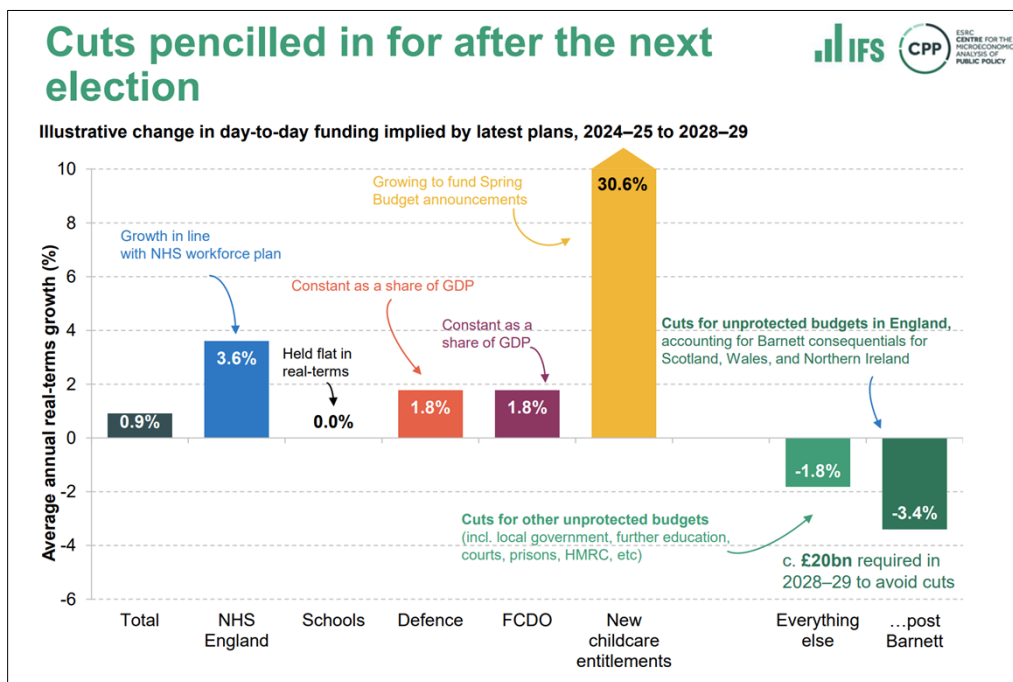


Chart 6: IFS forecast of average 3.4% cuts to budgets including local government

6.14 A potential change in Government following the July 2024 General Election adds further uncertainty to all future funding distribution resource levels and allocations.

Other Issues

6.15 Other events likely to impact looking ahead are:

- The certainty of future government funding over the medium term. Continuation of one year finance settlements confirmed close to the start of the financial year prevent meaningful decisions about financial planning and adversely affect councils' financial sustainability and encourage them to mitigate risk on their balance sheets. Local government could deliver better value for money if it had greater freedom to plan for the future, with multi-year and timely finance settlements.
- Uncertainty related to the future of the New Homes Bonus beyond 2024/25. Further change to/or an end to the NHB scheme will put the remaining funding of £1.1m that Greenwich receives at risk.
- The Extended Producer Responsibility for packaging (EPR) scheme, due to launch in October 2024 will be delayed to October 2025, in light of pressure facing consumers and businesses in the current economic context. Lower tier authorities can expect to receive additional income from the scheme, whilst being asked to submit data relevant to their waste collection services. This will likely be reflected by way of a new funding stream in the 2025/26 settlement.

- The ongoing focus on Business Rates may well result in changes to how this tax is raised from the taxpayers. This will be of particular interest to local government as the Business Rate Retention scheme is the principal form of external local government funding and may well be subject to reform in future years.

7. Medium Term Financial Strategy 2025/26 – 2028/29

- 7.1 The medium term financial strategy is a rolling programme which takes account of constantly changing circumstances and is continually kept under review over the period. In order to update the forecasted budget, the assumptions contained within the strategy have been revisited and updated where appropriate based on the latest information available.
- 7.2 The following key areas of net expenditure and funding within the strategy have been updated since the March 2024 iteration of the strategy which impacts on the forecasted budget gap across the four year period.

Net Budget Expenditure Updated Assumptions

- 7.3 Inflation has been updated to CPI inflation projections based on latest market interest rate expectations by the Bank of England's Monetary Policy Committee (MPC) contained within their May 2024 report. A marginal increase in forecasted rates for 2025/26 compared with the rates used in the March 2024 strategy has increased resources required to be made for future inflation demands by £0.5m in 2025/26
- 7.4 It is essential adequate resources are made to fund increasing ongoing costs resulting from changes in demographic demand. Failure to do this has a direct correlation with in-year budgetary overspends and in turn structural budget deficits which need to be rectified retrospectively. Work is currently being undertaken across the Directorates to ensure the future budget forecasts contain sufficient demographic resources. This revised forecast has increased the 2025/26 demographic demand budget from £3.9m to £15.0m which reflects recent prior year budget uplift requirements and represents approximately 4.5% of the non-pay budget.
- 7.5 Additional forecasted income of £0.250m from Fees & Charges. This is in addition to any increases contained within the previously agreed “savings proposals”.
- 7.6 The revised strategy acknowledges additional opportunities from Income, s106 and capitalisations collectively could improve the 2025/26 budget

position by a range of £2.5m - £3.0m. Further work is currently being undertaken to refine the forecast, and the lower range £2.5m is used in this revised forecast.

- 7.7 The council has entered into Section 106 agreements with developers, which permit the funding of both one-off capital and on-going revenue costs. These developer contributions may be deployed against the cost of delivering services, with the main opportunity areas being the funding of intermediate health and extra care provision within the borough.
- 7.8 Capital opportunities include both the additional capitalisation of salaries and short-term reductions in revenue funding contributions towards the capital programme, such as investment in vehicles and leisure and library facilities (the level of investment will be maintained but funded from alternative capital resources).
- 7.9 The use of Section 106 resources and further capitalisation may have long term revenue implications, should this result in an increase in the council's CFR (borrowing need) against the capital programme.

Funding Updated Assumptions

- 7.10 An additional £0.3m is forecasted to be achieved via council tax base growth in 2025/26. This is possible due to a change in government legislation which allows council's to apply the 100% long-term empty homes premium on dwellings unoccupied and substantially unfurnished for one year, rather than two.
- 7.11 A reduction in Local Council Tax Support (LCTS) costs are now expected to be achieved through the managed migration of claimants to Universal Credit. The downward shift in LCTS costs is expected to benefit the 2025/26 budget position by approximately £0.4m.
- 7.12 Government grant funding contained within the Core Spending Power (CSP) has been updated to reflect forecasts provided by the London Councils organisation in late March 2024. Significant changes to the grant forecasts for 2025/26 are as follows:
- Services Grant and New Homes Bonus to both continue, totalling £1.6m. These had previously been prudently reduced to zero as there is no confirmation they would continue in their current form.

- Social Care Grant forecasted £2.3m higher compared to the March 2024 MTFS report. This is primarily due to the forecasted continuation of the late distribution of Social Care funds announced in January 2024 which had previously been treated as a one off for 2024/25.

7.13 In 2024/25 the Government set a council tax referendum limit of 2.99% for local authorities, with social care authorities allowed an additional 2% social care precept. Whilst referendum limits for 2025/26 are yet to be set, this revised position shows the additional resources which would be raised from a 2.99% increase, which would achieve approximately £3.8m.

7.14 In light of the revised assumptions, the table below shows the impact of the changes between the forecasted net budget position in July 2024 forecast compared to March 2024.

Table 3 – 2025/26 Net Budget Forecast March 2024 to July 2024 Movement

| MTFS Variable (£m) | 25/26 | 25/26 | 25/26 |
|--|-------------------|------------------|--------------|
| | March '24 Council | July '24 Refresh | Variance |
| Govt Funding Change | 6.1 | 2.0 | (4.1) |
| Inflation & Demographic Demand | 17.8 | 29.4 | 11.6 |
| Freedom Pass | 0.9 | 0.9 | 0.0 |
| Capital Programming | 2.8 | 2.8 | 0.0 |
| Parking, CCTV, s106 & Capitalisations | 0.0 | (2.5) | (2.5) |
| Expenditure Pressures | 27.6 | 32.7 | 5.1 |
| Income – Ctax Base changes (growth, premia and UC migration) | (2.1) | (2.7) | (0.6) |
| Income – Fees & Charges | 0.0 | (0.3) | (0.3) |
| Total | 25.5 | 29.7 | 4.2 |
| March 24 Savings Proposals | 1.3 | 1.3 | 0.0 |
| Net Budget (pre Ctax) | 26.8 | 31.0 | 4.2 |
| Council Tax & ASC 2.99% | 0.00 | (3.8) | (3.8) |
| Net Budget | 26.8 | 27.3 | 0.5 |

7.15 The revised 2025/26 strategy forecasts a budget gap of £27.3m which has worsened marginally by £0.5m since the reported position to council in March 2024.

7.16 Revised assumptions have been applied to each of the following four years, up to and including 2028/29. The following table shows the forecasted position.

Table 4 – 2025/26 to 2028/29 Net Budget Position

| MTFS Variable (£m) | 25/26 | 26/27 | 27/28 | 28/29 |
|--|--------------|--------------|--------------|--------------|
| Govt Funding Change | 2.0 | 3.9 | 5.8 | 7.7 |
| Inflation & Demographic Demand | 29.4 | 57.7 | 83.9 | 111.8 |
| Freedom Pass | 0.9 | 2.7 | 4.5 | 6.3 |
| Capital Programming | 2.8 | 2.8 | 2.8 | 2.8 |
| Charges, CCTV, s106 & Capitalisations | (2.5) | 0.0 | 0.0 | 0.0 |
| Expenditure Pressures | 32.7 | 67.1 | 97.0 | 128.6 |
| Income – Ctax Base changes (growth, premia and UC migration) | (2.7) | (4.0) | (5.3) | (6.6) |
| Income – Fees & Charges | (0.3) | (0.3) | (0.3) | (0.3) |
| Total | 29.7 | 62.8 | 91.5 | 121.8 |
| March 24 Savings Proposals | 1.3 | (1.6) | (1.1) | (1.1) |
| Net Budget (pre Ctax) | 31.0 | 61.3 | 90.4 | 120.7 |
| Council Tax & ASC | (3.8) | (3.8) | (3.8) | (3.8) |
| 2.99% for 2025/26 | | | | |
| Net Budget | 27.3 | 57.5 | 86.6 | 116.9 |

7.17 The revised current MTFS forecast shows a 2025/26 budget gap of £27.3m, increasing to £116.9m in 2028/29. The council continues to work towards ensuring that the council is in a position to balance the 2025/26 budget.

7.18 The main ways in which the budget gap can be reduced are as follows:

- increases in government funding above the current estimates
- reductions in existing budgets from new savings proposals
- further increase in the Council Tax rate above the potential 2.99% included in the forecast
- use of existing one offs funds held by the council (this would not reduce any structural budget deficit throughout the strategy)

8. Additional Financial Information

- 8.1 The revised MTFS position contained within this report assumes a council tax increase of 2.99% for 2025/26 only. It is yet to be confirmed at what level, if any the referendum limit may be. For each additional 1% increase in council tax will generate approximately an additional £1.2m which would reduce the budget gap.
- 8.2 The current budget position assumes Government grant funding withing the Core Spending Power to continue broadly at the same levels at 2024/25. Whilst there is significant uncertainty in respect of future levels of grant funding, it can be noted that this funding increased approximately 8% between 2023/24 and 2024/25. If grant funding was to increase in 2025/26, each 1% increase would generate approximately £1.7m additional resources.
- 8.3 Demographic demand of £15m is included within the revised 2025/26 budget position. This broadly equates to 4.5% of the authority's non-pay budgets. Each 1% of demand growth resources costs approximately £3.3m and any changes to this amount would directly affect the forecasted budget gap.

9. Available Options

- 9.1 Not applicable as this report is presented for information only.

10. Preferred Option

- 10.1 Not applicable

11. Consultation

- 11.1 No consultation is required at this stage.

12.0 Cross-Cutting Issues and Implications

| Issue | Implications | Sign-off |
|-------|--|---|
| Legal | The report provides an update on the MTFS as agreed by Council on 06 March 2024. There are no legal implications arising from the decisions required | Davidaire Horsford Interim Head of Legal Services 20 June 2024 |

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| Finance | This report is authored by the Director of Finance and there are no other financial implications arising. | Hitesh Jolapara Assistant Director of Finance, 19 June 2024 |
| Equalities | The equality impact and relevance to the Council's Equity and Equality Charter and the Councils Equality Objectives 2020 – 2024 of the MTFS has previously been noted in February 2023. The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no apparent equality impact on end users. Further, given the nature of the report it has a remote or low relevance to the Council's Equity and Equality Charter and the Council's Equality Objectives 2020-2024 | Hitesh Jolapara Assistant Director of Finance, 19 June 2024 |
| Climate change | This report does not make any direct contribution to the Greenwich Carbon Neutral Plan agreed by Cabinet on 18 November 2020. | Hitesh Jolapara Assistant Director of Finance, 19 June 2024 |
| Risk Management | The key risks in relations to MTFS funding are being regularly monitored. | Hitesh Jolapara Assistant Director of Finance, 19 June 2024 |

13.0 Report Appendices

13.1 None

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