

STROUD DISTRICT COUNCIL
STRATEGY AND RESOURCES COMMITTEE
THURSDAY, 5 OCTOBER 2023

Report Title	Budget Strategy 2023/24 to 2027/28			
Purpose of Report	To set out an updated Medium Term Financial Plan and the Strategy that will be used in setting the budget for the 2024/25 year.			
Decision(s)	The Committee RECOMMENDS TO COUNCIL to approve the Budget Strategy and Draft MTFP 2023/24 to 2027/28 as set out in this report and appendices.			
Consultation and Feedback	Formal budget consultation is currently taking place in the form of a telephone survey of local council tax and business rate payers			
Report Authors	Andrew Cummings, Strategic Director of Resources Email: andrew.cummings@stroud.gov.uk			
Options	Councillors may choose to debate estimated long term projections of both costs and income.			
Background Papers	None			
Appendices	Appendix A – Draft Medium-Term Financial Plan 2023/24 to 2027/28 Appendix B – Previously agreed budget changes and updated budget assumptions			
Implications (Further details at the end of the report)	Financial	Legal	Equality	Environmental
	Yes	No	No	No

1. INTRODUCTION / BACKGROUND

- 1.1 Each year, the formal budget setting process through the Committee cycle is begun with a report to this Committee, for recommendation on to Council, setting out updated estimates in the Medium-Term Financial Plan (MTFP) and establishing the framework for which officers will bring together the budget for member consideration. The Budget Strategy updates the MTFP with all the known changes and sets out the assumptions which will be used as part of Budget Setting process.
- 1.2 For the budget setting process for the 2023/24 year there was, as a result of huge turbulence in the national economy and rising inflation, a great deal of uncertainty about

future financial projections for this authority. This meant that a more limited budget update was produced. For 2024/25 even though there are still high levels of inflation and uncertainty, a full Budget Strategy has nevertheless been prepared.

- 1.3 It is a vital part of effective financial governance that members have the opportunity to question and debate the future financial projections of the Authority. This has never been more important than with recent high profile cases of authorities issuing “Section 114” notices which are in effect an indication that they are unable to balance their budgets.
- 1.4 The production of this Strategy has been timed to coincide with the publication of the first quarter’s budget monitoring reports. The findings of that budget monitoring process have been used to inform many of the projections in this report.
- 1.5 As in previous years, officers are currently reviewing all expenditure and income budgets to determine appropriate levels, and identify savings where possible. This paper will include details of the current assumptions being used by officers on inflation levels and other changes to budgets.
- 1.6 Individual policy committees will be considering their respective budgets, along with fees and charges proposals in the December 2023 committee cycle.
- 1.7 The Council’s General Fund and Housing Revenue Account (HRA) budgets for 2023/24, including the budget proposals of the administration, will then be presented to Strategy and Resources Committee on 1st February 2024 and thereafter to full Council at their meeting on 22 February 2024.
- 1.8 As this Strategy is the first part of the Budget Setting process inevitably many of the specific numbers are subject to change over the coming months. However, the key themes and risks explored in this document are expected to be those of most significance in the upcoming budget cycle.
- 1.9 The budget strategy is focused on the revenue projections for both the General Fund and the Housing Revenue Account. The capital programme will be included in later budget setting reports.
- 1.10 Appendix A represents the updated Medium Term Financial Plan and shows the overall Surplus or Deficit for each financial year along with the estimated balance on the Equalisation Reserve.
- 1.11 Appendix B shows the changes that are made to the budget in each financial year. Figures without brackets are additions to the budget, or reductions in income targets. Figures with brackets are reductions in budget or increased income targets. The net position for each year feeds through to Appendix A on the Proposed Budget Adjustments line.

2. General Fund Budget Strategy and Medium-Term Financial Plan

Funding Projections

- 2.1 The final financial settlement for Local Government in 2023/24 was announced on 6th February 2023 by the Secretary of State Michael Gove. This was a broadly positive statement for SDC with most financial arrangements rolling over into a new year and some new grant allocations awarded. This allowed for the setting of a balanced budget, with some

additional spending on Council Plan priorities when the budget was then set by this Council later that month.

- 2.2 This settlement was again a single year settlement. However, the government had published a Policy Statement in December 2022 setting out some of their intentions for Local Government finance for the next two years. The contents of that statement have been used in producing some of the estimates within this Strategy.
- 2.3 Previous announcements by Central Government have indicated that wider consultations will take place on the future of the funding system of local government. This has not yet taken place and it is therefore not anticipated that any such reform of local government funding will take place before the next general election.
- 2.4 As has been reported on several previous occasions, the outcome of funding reform is extremely difficult to quantify but it is likely that there will be a redistribution of funding from lower tier authorities to those authorities with social care responsibilities.

New Homes Bonus

- 2.5 As in previous years the situation with New Homes Bonus remains unclear. There was a government consultation on its future in early 2021 and there has been no response from government on the consultation since that closed. In the absence of a long-term plan there have now been two additional one-year allocations awarded from the scheme.
- 2.6 As part of the Policy Statement from December 2022 there was a commitment to clarify the future of New Homes Bonus before the final settlement for 2024/25 but as yet no additional information has been received.
- 2.7 At this stage, with little time left for consultation on changes before the settlement, it is currently assumed that there will be a further one-year rollover of funding. This is currently assumed at £700k. This is less than the amount to be received for 2023/24 but is closer to historical figures received for each year's allocation. There will be no certainty to this number until the final settlement is received, currently expected in mid-December 2023.
- 2.8 The table below sets out the amounts of New Homes Bonus included within the current draft MTFP alongside the amounts received in previous years. No funding is assumed after 2024/25.

Table 1 – Current New Homes Bonus assumptions

Year of Reward	2020/21 (£'000)	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)	2024/25 (£'000)
2015/16	238				
2016/17	337	337			
2017/18	218	218	218		
2018/19	538				
2019/20		225			
2020/21			1,213		
2021/22 (and onwards)				893	700
TOTAL NHB	1,331	880	1,431	893	700

Business Rates

- 2.9 It remains a core assumption of our Medium-Term Financial Plan that the retained business rates element of our income will drop whenever the local government funding system is reformed. This is because the mechanism for business rates retention is likely to be the method through which local government funding may best be redistributed.
- 2.10 The reset of business rates growth and reform of the local government funding system is now anticipated to be in 2026/27 at the earliest. Until that point, business rates growth is still anticipated and central government funding to replace lost rates through central government policy will continue to increase at inflation linked levels. This sees increases in rates income in both 2024/25 and 2025/26.
- 2.11 Inflationary linked growth is also expected in rates collected from renewable energy sources, which come 100% to the District Council. Any new schemes coming online will have a business rates benefit to SDC. There is no information about how rates from renewable energy will be impacted by changes to local government funding, but a business rate incentive for producing renewable energy is still considered likely.
- 2.12 The table below shows how the estimated retained rates are included over the life of the current MTFP and the latest estimates at this stage. The impact of the delayed reforms can be seen in the fall in income for 2026/27.

Table 2 – Impact of a delay to rates reset

	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Business Rates Retained	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
Previous MTFP	4,393	5,316	5,806	3,914	4,075	23,504
Delayed reset	4,393	5,339	6,626	7,090	3,991	27,439

2.13 As has been the case for many years now the Gloucestershire Business Rates Pool is continuing in 2023/24 and it is likely that a gain will be received in the outturn process. For context this sum was £494k for 2022/23. This is not included in the base MTFP as sums to be retained are unpredictable and vary depending on rates collected across the County. Sums received are allocated by Strategy and Resources Committee as part of the outturn process.

2.14 No gain from the pool is included within the base budget throughout the MTFP, due to the inherent risks of rates pooling, and any gain will again be allocated in the outturn process. In recent years this has been allocated to spending priorities and Council Plan projects although if the outturn position was to require it the funding would be used to ensure an overall balanced position.

Council Tax

2.15 For the current financial year, the Council was limited to, and applied, a Council Tax increase of 2.99% for a Band D property. It was confirmed in the Policy Statement that this same limit will also apply for 2024/25. This has therefore been included in the draft MTFP and will be included in the final budget proposals to Council. 2.99% of course limits the increase for the taxpayer but it is important to recognise that this key element of Council funding is again increasing by less than the rate of inflation.

2.16 For years after 2024/25, the draft MTFP assumes a return to the previous limit on District Councils of £5 a year for a Band D property. This will be updated if more information becomes available. For context a £5 increase in 2025/26 would be an increase of just 2.1%.

2.17 There are currently no plans to reduce the level of Council Tax Support payable which currently provides 100% support to those most in need. This inevitably has an impact on the level of income received by the Council, but it is not considered to be an appropriate time to reduce levels of support in the current cost of living crisis and possible recession. The Council Tax support scheme details will, as always, be presented alongside the final budget papers.

2.18 The Council Tax base growth currently being assumed is 1.5%. This in line with previous years. However, the 2023/24 budget saw a year of growth which was lower than in previous years at only 0.5%. At the present time it appears that 1.5% will again be a reasonable estimate for 2024/25 and so this has been used in preparing the draft MTFP. Table 3 below shows the impact if base growth is lower than anticipated over the life of the MTFP.

2.19 The collection rate for Council Tax is also considered as part of the budget setting process. For the 2023/24 year a predicted collection of 98.5% was used. This was a reduction from the previous estimate of 99%. That reduction was a reflection of the collection rate not having returned to historical high levels after the impact of the pandemic on. Current collection rates at this point in the financial year indicate that it will again be appropriate to estimate Council Tax received on a collection rate of 98.5% for the upcoming MTFP.

2.20 The Levelling Up and Regeneration Bill includes a provision for a premium to be charged for Council Tax on second homes. This would be the subject of a committee decision at budget setting time, but the MTFP currently assumes that such a premium would generate an income of approximately £100k p.a. from the 2025/26 year onwards.

Table 3 – Impact of Changing Council Tax Base Growth

	2024/25	2025/26	2026/27	2027/28
Council Tax Income	(£'000)	(£'000)	(£'000)	(£'000)
0.5% growth	11,031	11,423	11,718	12,016
1 % growth	11,086	11,536	11,892	12,254
1.5% growth	11,141	11,650	12,068	12,497

Extended Producer Responsibility

2.21 The Policy Statement included a recognition that the position of lower Tier Councils must be understood in the round. This was in the light of the introduction of the Extended Producer Responsibility (EPR). This was a system by which producers of materials that need recycling would pay a levy towards that recycling process. That levy would then be shared out amongst authorities responsible for collecting recyclable material. This was anticipated to be a potential major future funding source. EPR has now been delayed for at least a year and with the delay of the scheme there has been no further indication on how this will impact on the settlement and long term funding approach for lower tier authorities. Therefore, the MTFP includes no allocations of EPR funding.

Other Government Grants

2.22 The 2023/24 settlement introduced a new grant called the 3% funding guarantee. This was introduced to ensure that every Council had at least a 3% increase in their Core Spending Power. The allocation for Stroud District was £720k. The government has already advised that the grant is likely to continue into 2024/25 and an estimate of £873k has been included in the MTFP. In light of the further likely delays to overall funding reform, the Councils' external funding advisors are also anticipating an allocation in 2025/26 of £1.5 million. This has also been included in the MTFP. However, as with all grant funding there is a high degree of uncertainty in even 2024/25 figures, so the exact amount of this award is far from certain.

2.23 Currently the MTFP anticipates the reform of local government funding in 2026/27. As considered earlier in this report this would cause a large decrease in funding through loss of retained business rates. It is also likely that there would be some form of transition funding. This could co-exist with the potential return of “Negative RSG”, a grant mechanism which would see some grant funding returned to Central Government. The MTFP for 2026/27 and 2027/28 includes some estimates as to how such a mechanism could function to offset that fall in retained rates. Any figures related to funding reform must be viewed with a great deal of uncertainty as there has been no detail on any new funding system for some time now.

3. Budget Assumptions

Price Inflation

- 3.1 Issues around inflation will again likely be the dominating factor in relation to the budget setting process. At the time of writing the CPI inflation rate in the UK has reduced to 6.7% and is expected to reduce further in the Autumn, with the Bank of England anticipating inflation will end the year at around 5%. This is far from certain and in recent days the cost of oil, a major driver of inflation has been rising on international markets.
- 3.2 The budget setting process has allowed for 5% for those contracts which have an inflationary linked element. This general allowance has been added to contract budgets and represents an increase of £519k for the 2024/25 year. The estimated inflationary rates reduce in the later years of the MTFP in line with government estimates.
- 3.3 The largest General Fund contract is with Ubico for waste collection and other services. Detailed budget discussions have already begun in relation to the upcoming year and the first draft budget is expected from Ubico in early October. The biggest driver of cost in the Ubico contract is not general inflation, but the staffing inflation which is linked to the national local government pay award. Estimates are being made as to the impact of different pay scenarios. The other key cost driver is fuel which has decreased during the current financial year but is currently increasing again. The Ubico budget for SDC will be based on HVO fuel, with a comparator figure for Diesel provided to allow accurate comparison of the investment the Council has made in low carbon fuels.
- 3.4 Inflation will again not be included on budgets which are not related to salaries or contracts. It is anticipated that efficiencies will be used to maintain expenditure within existing budgets. This approach represents a significant way that the Council can achieve some real terms savings in expenditure. The detailed budget process will also be identifying budgets no longer required and recommending them as savings. For the 2023/24 year the process of identifying savings has achieved £178k per annum, as shown in the Budget papers in February 2023.
- 3.5 The budget for 2023/24 and onwards was set at the peak of energy costs and included high estimates for energy prices over the period of the MTFP. As energy prices have reduced a saving has been included of £221k per annum over the life of the MTFP. This excludes adjustments relating to the leisure centres as those adjustments are included in the overall assessment of the cost of the in house leisure provision.

Pay Inflation

- 3.6 The Council budgeted for a pay increase of 5% staff in the current financial year. There is currently no agreement between National Joint Council and the local government Unions. The current pay offer to staff was for a pay increase of £1,925 for all staff, or 3.88%, whichever is greater. This represents an average of 5.6% for SDC and for the General Fund is an additional cost of £116k p.a. over budgeted levels. This is now included in the draft MTFP. This has been included as a representation of the most likely outcome even though no agreement has been reached.
- 3.7 Clearly as there is no agreement on the 2023/24 year, the process of reaching an agreement for the pay award for 2024/25 has not yet begun. This makes the process of estimating it for MTFP purposes extremely challenging. As a result, an estimate of 5.6% has been included for 2024/25 in line with the estimated impact for 2023/24. The percentage used then decreases over the life of the MTFP in line with the estimated decreases in inflation.
- 3.8 As covered earlier in the report the local government pay award also impacts on Ubico. Officers are working closely with Ubico to ensure consistency of estimates and that information on the cost of pay is shared closely.

Interest Rates & Investment Income

- 3.9 The Bank of England has now raised base interest rates at 14 consecutive Monetary Policy Committee meetings until holding the rate in September. This has increased the base rate from 0.1% to the position at the time of writing of 5.25%.
- 3.10 This increase in rates has an overall positive impact on Council revenue budgets in the short term. Income in investment balances has increased significantly, as reported to the Audit and Standards Committee, and a further increase in income targets of £65k is anticipated in the 2024/25 year for the General Fund. There will also be increased income in the HRA to be considered in setting that budget.
- 3.11 Current Council borrowing is all at fixed rates with no re-financing required in the Medium Term so there is no impact on short term borrowing cost.
- 3.12 If interest rates remain high into the medium and longer term, there will be likely be an impact on the capital programmes of both the General Fund and HRA. Planned borrowing will be more expensive, particularly for housing works where the HRA has a large capital programme. As a result, the MTFP has increases in the cost of interest from 2025/26 onwards reflecting a combination of increased capital spend, a fall in overall balances and likely reduced investment income as bank rate begins to fall as anticipated by Treasury Management advisers.

Fees & Charges

- 3.13 The budget setting process will again include full consideration of all fees and charges levied by the Council. Each committee will be able to debate all fees and charges which come within their remit with a complete list presented to full Council alongside a fees and charges policy.

- 3.14 The level of increase in fees and charges for 203/24 was set at an average of 5% at the current year's budget setting decision. This introduced an extra £165k per annum into the MTFP. However, with inflation running at levels far greater than that the increase of 5% represented real terms cut in the charges and increased level of General Fund subsidy for chargeable services.
- 3.15 The Council's approved fees and charges policy sets out that fees and charges are "a significant source of income that supports the delivery of the services. If the Council were to reduce or stop charges for services, it would not have the resources to continue providing all of the services it currently offers". With the significant increases reflected in both pay and general inflation this requires the Council to either raise fees and charges in line with inflation, reduce the level of service provided, or provide a subsidy from the general Council budget.
- 3.16 Although inflation is currently 6.7%, the Bank of England expects that to fall to around 5% by the end of 2023. Therefore, the draft budget will again be prepared on a general assumption of increasing all fees and charges within Council control, including car parking, by 5%.
- 3.17 Although 5% is in line with expectations for inflation within the economy, the major driver of the cost of Council services is staffing. If the staffing cost increases by more than 5%, as covered in previous paragraphs, it still represents a shortfall in the income to cover services against costs increases.
- 3.18 The table below gives a summary of the main assumptions included within the budget process at this early stage.

Table 4 – Assumptions included within the Strategy

	2024/25	2025/26	2026/27	2027/28
Band D Council Tax Increase	2.99%	2.99%	£5	£5
Tax Base Increase	1.5%	1.5%	1.5%	1.5%
Contract Inflation	5%	3%	3%	2%
Pay Inflation	5.6%	3%	3%	2%
Fees and Charges Growth	5%	3%	3%	2%

Longer Term Budget Adjustments

- 3.19 Although the budget setting process is at an early stage, the timing of this report alongside the first quarter's budget monitoring means that it is possible to identify those key issues and themes which are likely to form part of the budget setting process and final budget papers. Several key pressures have been recorded in that monitoring and are therefore included in the savings and pressures sheet shown in Appendix B.
- 3.20 A pressure has recently been identified as part of the Quarter 1 monitoring in the field of Supported Accommodation. Where the cost of such accommodation is significantly higher

than the amount allowable under housing benefit this cannot all be claimed back through housing benefit subsidy, and part of the cost is borne by the local authority. Additional budget to address an increase in costs was included in this year's budget, but costs have continued to rise throughout the year. The main driver for this is that the Local Housing Allowance has remained frozen whilst local rents have been increasing with inflation, leaving the Council to meet the gap in the middle.

- 3.21 Levels of car parking income have risen over the last two years but have still not recovered to levels seen before the pandemic. For the 2023/24 year, Council agreed to decrease the income target by £142k to reflect the lower level of demand. The Quarter 1 monitoring shows that although income will be higher than last year it will still be £139k lower than the revised target income in the current financial year. This amount will therefore be removed from income targets in upcoming years. This is a separate decision to the application of inflationary increases to parking charges discussed earlier in this report.
- 3.22 The Council is increasing its capacity in the current year to provide Counter Fraud prevention and detection services. This increase in capacity will have a budgetary impact and £21k has been added to General Fund budgets to provide the resource. Increased work in the field of Counter Fraud is likely in time to pay for itself through loss recovery and prevention of fraud.

New Council Priority Allocations

- 3.23 Since the Budget was set in February 2023 Councillors have made a number of decisions in relating to changing the provisions of SDC services which have a budgetary impact. Financial implications on these decisions have always laid out that the Medium-Term Financial Plan will need to be updated as a result of these decisions. This Budget Strategy is the appropriate time to do so. Appendix B includes a section for 2024/25 budget pressures representing these items.
- 3.24 Environment Committee has considered the introduction of Electric Vehicles Charging Points in Council car parks and the costs of doing so. If the capital budget is approved by Council, then a combined budget of £15k will be required for interest and the Minimum Revenue Provision.
- 3.25 In July, Council approved the decision to bring Stratford Park Leisure Centre management in house at the end of the current contractual arrangement. Appendix B shows the initial costs and later savings expected as a result of this decision. Once the service is in house future Medium Term Financial Plans will also have to consider the changes to fees and charges, and inflationary increases in costs in running the centre.
- 3.26 A decision has also been made to use HVO fuels in the Ubico fleet to significantly reduce the level of carbon emissions. As set out in the Council report this has a financial impact which fluctuates with the changing cost of fuel. Ubico are preparing the budget for 2024/25 year based on using HVO. An allocation of £100k has been included for this with an updated estimate to be included in the later budget.
- 3.27 The Fit for the Future programme, and the desire to put the customer first, gives an increased need to invest in the customer contact centre and give our customers the support they need at the first point of contact with the Council. To help achieve this an investment into additional staff in the contact centre is made in 2024/25 which is offset with savings

from elsewhere in the Council, as work transfers to the Contact Centre over the rest of the Medium Term.

- 3.28 The SALIX project to install air source heat pumps at Stratford Park Leisure Centre, The Pulse and the Museum in the Park is well underway. It is currently expected to come in on time and on budget as well as realising additional benefits such as additional and improved solar panels on the buildings. The original business case included an estimate that energy costs would be approximately £160k per annum higher than a traditional gas boiler. This estimate is included at this stage of the MTFP update, although it is likely that the final cost may be lower as a result of reductions in the wider energy markets.
- 3.29 Taken all together these decisions represent a sizeable investment into Council Plan priorities, particularly into carbon reduction. In total £598k has been added into the 2024/25 budget to support these schemes.

4. General Fund Medium Term Financial Plan Financial Resilience and Use of Reserves

- 4.1 As has been the case for a number of years the Medium-Term Financial Plans uses a General Fund equalisation reserve to absorb the impact of fluctuations and income and expenditure over different financial years. This balance remains stable over the first two years of the plan and then falls after the anticipated local government funding reform. The current estimated closing balance at the end of the MTFP is £2.6 million.
- 4.2 The balance of General Fund earmarked reserves, excluding the capital reserve and collection fund smoothing reserve, at the end of 2022/23 was £18.7 million (2021/22 £17.2 million), including the £6.6 million General Fund equalisation reserve. This is in addition to the General Fund balance of £2.169 million which the S151 Officer recommends be held at that level.
- 4.3 As part of the outturn process considered at the last Strategy and Resources Committee the Section 151 Officer considered the level of Council Reserves. These are deemed to be appropriate at this stage with a balance between reserves held for project expenditure and those held to mitigate risk.
- 4.4 The Council maintains a Business Rate Safety Net Reserve where a portion of the business rate growth received each year is put to one side in anticipation of the growth reset. This will then be released into the MTFP at such point that growth is removed from annual Council funding. As discussed earlier in the report, this is currently anticipated in 2026/27. The balance as at the end of 2022/23 was £3.6 million. In the first two years of the MTFP, before the reset of growth, an additional £1 million is placed into this reserve. In the final two years of the plan £3.6m is taken out of the reserve to partially offset the income lost.
- 4.5 The topic of the health of Local Authority finances has been at the forefront of news items in recent months, with Birmingham City Council being the latest authority to issue a Section 114 notice and indicate that it is not able to effectively balance its books. As can be seen in the Medium Term Financial Plan in Appendix A there is currently not anticipated to be such a scenario at SDC over the life of the upcoming plan.

5. Housing Revenue Account (HRA)

- 5.1 The proposed Budget and Rent Setting 2024/25 Report will be presented to Housing Committee in December 2023, followed by Strategy and Resources Committee and Council in February 2024.
- 5.2 The 2023/24 budget showed that the financial position of the HRA was not sustainable over the medium term, and that HRA General Reserves would be exhausted in 2025/26. The report set out that a full review of the service would be undertaken by the Strategic Director of Communities, alongside a new management team. This review is underway.
- 5.3 It is assumed that costs will continue to rise in line with the budget assumptions set out in this report. There is continued pressure on the cost of labour and materials, which is particularly affecting the cost of repairs and maintenance, major works including sustainable energy works, and the new build programme. As with the General Fund there is expected to be a reduced budget needed for utilities which would help support these costs.
- 5.4 Housing Committee have agreed, in principle, that service charges are to be depooled from rents from April 2024. Although this would mean that tenants are then charged for additional services available to them that are not designed to be included within social rents, for example communal areas, it is expected that these charges will be implemented on a phased basis. Therefore there is not expected to be a significant financial change in 2024/25. It does, however, give tenants a greater involvement in the services provided to them.

Rents

- 5.5 2024/25 is the final year of the agreed rent uplift at Consumer Price Index (CPI) +1%. It is September CPI that is used for the rent uplifts, which will be available mid October. August CPI (announced in September) is 6.7%, which would lead to a rent increase of 7.7%. Rent levels are not currently expected to be capped by legislation for 2024/25 as they were (at 7%) for 2023/24.
- 5.6 Future rent increases from 2025/26 are not yet known and are expected to be announced within the next year. The MTFP currently includes rent increases of CPI only. If and above inflationary uplift was extended, this would help support the future financial position of the HRA. An uplift of 1% above CPI would equate to additional income of approximately £250k pa.

Borrowing

- 5.7 The HRA has external borrowing of £97.7m. This is all at fixed rates and so will not be affected by an increase in interest rates. The HRA also has internal borrowing of £10.5m. This is where available balances are utilised to fund expenditure temporarily to prevent paying interest charges. Additional borrowing of £38.0m is currently included for retrofit works, new build and acquisitions. Interest rates on borrowing remain at a higher rate, which means that the cost of borrowing will be higher. External advice is taken on the timing of new borrowing.
- 5.8 Since 2019/20 an annual amount has been put for the repayment of borrowing when it becomes due. There is currently £3.8m set aside for this purpose, of which £2.9m is in

earmarked reserves. There is also an additional £1.0m allocated in the 2023/24 budget for the repayment of debt.

HRA Reserves

- 5.9 There is £4.1m in HRA general reserves, with a budgeted transfer of £1.8m in 2023/24 leaving a budgeted balance of £2.3m. This is above the minimum recommended balance of £1.6m, and these reserves can be used to fund the service over the short term. There is also £4.5m in earmarked reserves (not including the earmarked reserve for the repayment of debt), before in year transfers.

Conclusion

- 5.10 Overall, the medium- and long-term position of the HRA is under considerable financial pressure from increased costs and capped income. It is not expected that the long-term financial position will be balanced, and action will be required to mitigate the pressure. However, there is not expected to be any difficulty with presenting a balanced budget for 2024/25.
- 5.11 In order to ensure a financially sustainable HRA, areas of consideration will continue to include:
- Reviewing the level of capital works, including major works such as kitchens and bathrooms, as well as the retrofit programme
 - Reviewing revenue repairs, cyclical works, and the lettable standard for void properties
 - Establishing the level of service offered to tenants through the Tenancy Management and Income teams
 - Maximising grant and other income, especially for the retrofit programme
 - Consider rent levels, for example charging higher rents in highly energy efficient homes with lower running costs
 - Reviewing the repayment of borrowing.

6. RISKS

- 6.1 As part of the budget process a number of significant assumptions are made on inflationary changes to both costs and income. Any differences between assumed and actual levels of inflation will represent a risk to the MTFP. All assumptions made will be clearly stated in the relevant budget papers.
- 6.2 The provisional local government financial settlement is expected to be announced in December. The details of that settlement, both short and medium term, will have a major impact upon the Medium-Term Financial Plan.
- 6.3 As referenced a number of times in the paper there is a risk presented by anticipated local government funding reform, currently included for 2026/27. Assumptions have been made on the best available evidence at the time of writing but any change in income, which could be for the better or worse, will be reflected in an updated MTFP at the appropriate time.

7 IMPLICATIONS

7.1 Financial Implications

The whole report is of a financial nature. This report sets out the current assumptions that will be used for preparing the General Fund revenue budget in 2024/25 and the MTFP for the years beyond.

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7.2 Legal Implications

There are no legal implications arising from the recommendations made in this report.

One legal
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7.3 Equality Implications

An EqIA is not required because no changes to service levels are proposed.

7.4 Environmental Implications

There are no direct financial implications in the budget strategy. The Council has identified funding to support its environmental commitments within the Council Plan.