

Report for: Cabinet

Date of Meeting: 2 September 2025

Subject: **Medium Term Financial Plan**

Cabinet Member: Cllr John Downes – Cabinet Member for Governance, Finance and Risk

Responsible Officer: Andrew Jarrett – Deputy Chief Executive (S151)

Exempt: N/a

Wards Affected: All

Enclosures: Appendix 1 – MTFP Summary Position – General Fund
Appendix 2 – MTFP Summary Position - HRA

Section 1 – Summary and Recommendation(s)

To present the updated Medium Term Financial Plan (MTFP) which covers the period 2026/27 to 2028/29 and takes account of the Council's key strategies (i.e. the Corporate Plan, Business Plans, Treasury Management Plan, Asset Management Plan, Work Force Plan and Capital Strategy) and demonstrates it has the financial resources to deliver the Corporate Plan. This models potential changes in funding levels, new initiatives, unavoidable costs and proposed service savings.

Recommendation(s):

That Cabinet:

1. **Note the updated MTFPs for the General Fund covering the years 2026/27 to 2028/29;**
2. **Agree to apply the principles set out in Section 4 where possible and endorse the approach to balancing the General Fund Revenue Budget outlined in paragraph 7.2.**
3. **Seek recommendations from the Policy Development Groups on the Budget Proposals identified by senior managers and garner their views on where savings should be sought and to what level.**

Section 2 – Report

1.0 Executive Summary

- 1.1 The 5-year timeframe usually covered by the MTFP is not applicable due the Government's previous announcement of Local Government Reorganisation (LGR) for authorities within Devon. The current expected date for commencement of the new entity, in whatever form, is April 2028. However, to show a meaningful MTFP period, we have continued financial estimations through to 2028/29.
- 1.2 2026/27 is an exceptional year in terms of funding for the sector. The Government have announced that practically all the various funding mechanisms within the sector will alter. Although there are various ongoing consultations, the final changes and implications for each funding stream is not currently known and will not be until the autumn at best. It's likely that individual authority allocations will not be known until the Local Government Finance Settlement is announced, which will then cover 2026/27 – 2028/29, the first multi-year settlement in a decade. The Settlement has at least been promised to be made earlier than the norm of the week before Christmas. This leads to an unprecedented level of uncertainty and makes it practically impossible to explain let alone forecast and plan for.
- 1.3 As stated within the 2025/26 Quarter 1 Budget Monitoring Report, it is understood that the Council has been targeted as part of a minority group of around 50 authorities that will be one of the biggest losers based on their initial draft calculations on funding – which would see us targeted for between a 5-7% real terms cut in 2026/27 as opposed to the 0% cash floor applied to the remaining c300 authorities. The funding baseline to which this cut will apply is not clear, but if this is applied the funding shortfall will be in the region of £2m - £3m.
- 1.4 However, there are other new sources of funding expected outside of the settlement that will reduce the impact. The Extended Producer Responsibility (EPR) Grant was introduced late in the budget process for 2025/26. The indicative allocation was £927k, however this has recently been amended to £1,438k. Government have indicated that similar levels of funding should be available in future years, albeit that as producers reduce the volume of packaging, the grant received will fall. Therefore a prudent assumption of £1,000k is included within the MTFP.
- 1.5 Similarly, we assume that all authorities will receive a share of the Weekly Food Collection Grant funding in the future, hence the inclusion of £250k per annum in the MTFP. Currently the Government is not providing any indicative figures and timing of such announcements is likely to be at the same time as the funding settlement.

- 1.6 The above paragraphs demonstrate the high degree of uncertainty that remains on what level of funding might be received from 2026/27 onwards. There is ongoing modelling by the Ministry of Housing, Communities and Local Government (MHCLG) on the new funding formulae and only in late November / early December are we expecting full clarity of our individual position. Over and above the changes in the formulae and the setting of negative funding floors, MHCLG are also discussing options for transitional reliefs and further flexibilities etc to smooth the impact of the changes. Should the Council be one of those c50 authorities targeted for the largest cuts in funding this will be especially relevant, particularly in respect to business rates where we have seen significant growth in our funding.

2.0 The purpose of the Medium Term Financial Plan

- 2.1 The main purpose of the MTFP is to show how the Council will strategically manage its finances in order to support the delivery of the priorities detailed in the Corporate Plan 2024 – 2028.
- 2.2 The MTFP links the financial requirements, constraints and objectives included in all the key planning documents of the Council (i.e. Asset Management Plan, Treasury Management Strategy, Work Force Plan, and Business Plans) which culminate in the Corporate Plan.
- 2.3 The MTFP is an essential part of the budget setting process. It provides a financial model which forecasts the cost of providing Council services in the future, together with an estimate of the financial resources that will be available. This model provides an early warning mechanism if there is a significant budget gap between estimated costs and available resources.
- 2.4 The MTFP helps strategically plan the budget setting process, but of equal importance, gives Management and Members an overview of future budget gaps so strategic decisions can be made over levels of future spending, Council Tax levels, policies for fees and charges, asset investment or disposal, etc.
- 2.5 The Council also prepares an MTFP for the Housing Revenue Account (HRA). This shows the key issues affecting the HRA costs and income streams across 2026/27 – 2028/29.
- 2.6 Work is underway to develop the capital programme and this will follow in due course.

3.0 Framework for the Medium Term Financial Plan

- 3.1 The MTFP models an overall aggregated position for the Council based on a range of assumptions. This then predicts an overall budget position, which can highlight a potential budget gap and then propose remedial action which can be taken to resolve it. Clearly, these assumptions can be challenged. They will vary due to changes in the local, national and international economic position and of course, the ongoing consequences of the Cost Of Living Crisis will have implications, not only for the current year, but also for the years to come.
- 3.2 Given the level of uncertainty on the future funding, the focus is on the expenditure. The starting base for the MTFP is the 2025/26 approved budget assuming that the current level of service provision remains.
- 3.3 It is then adjusted for any supplementary estimates approved by the Council or any significant budget variances identified in the budget monitoring report to the Cabinet. Forecasts of unavoidable costs, such as, pay increases, inflation, service pressures associated with new legislation, a growing residential or business property base or improving performance, etc are then included. The MTFP will also consider forecasts for investment receipts and income from fees and charges.
- 3.4 Normally the MTFP considers and makes assumptions regarding future levels of funding, in particular Council Tax including the potential growth in tax base, Business Rates again including any movement in the baseline as well as changes in the reliefs, multipliers and overall retention levels. Forecasts are also made for the likely level of future Central Government funding. However, the scale of change in the majority of these funding streams practically renders this impossible. This is covered in more detail in the next section.
- 3.5 The development of a multi-year financial model is based on a number of assumptions and perceived risks. These become more difficult to predict the further into the future you consider. In general terms a prudent/reasonable approach has been taken regarding forecasts, professional accounting guidance has been followed and external technical opinion has been sought where necessary.

4.0 The Underlying Principles – still applicable?

- 4.1 The Council previously adopted the following underlying principles as a base assumption during the life of the MTFP:

4.1.1 Principle 1 – General Fund Reserves

- Each year the Council will target a balanced revenue budget without the use of General Fund reserve balances. The level of predicted deficits over the period of this plan may ultimately require the application of reserves to a degree to achieve the mandatory balance. However, this option is not reflected in the numbers presented and must only be considered as a last resort;
- The Council faces considerable financial risks that can have a potentially significant and immediate impact on its finances. The MTFP will attempt to ensure that the General Fund Reserve balance does not fall below the current minimum agreed level (£2m).

Whilst every effort will be made to identify efficiency savings, given the scale of the likely funding reductions it is unlikely that a sufficient level can be identified to fully balance the 2026/27 budget without significant implications on service provision. Also, there is an extremely limited time frame available between finalisation of the funding settlement and setting the budget for 2026/27. Therefore, as a result of this combination of issues, it is highly likely that some level of draw from reserves will be required, and a full review of Earmarked Reserves will be necessary to see what can be realigned, and whether a minimum balance of £2m in General Reserves can be maintained.

4.1.2 Principle 2 – Optimise Income Generation

- Council Tax funds the largest share of the Council's budget. Annual increases will be kept within Government set guidelines. In reality this now gives the Council very little scope to significantly increase Council Tax income as the recent nationally prescribed referendum rate has been limited to a maximum of 3% or £5 across the 3-year settlement period.

It should be noted that Government expect all councils to maximise the increase in Council Tax in line with the referendum limits. Furthermore, the Government continue to raise additional flexibilities within the Council Tax scheme as possible options to mitigate the impact of the substantial funding reductions.

- The Council will continue to look at opportunities to generate additional sustainable income. This could be through reviews of existing Fees and Charges or through new charges for discretionary services. Such charges should be set at levels that are appropriate and proportionate to the costs of the service they are delivering and the market within which they operate. The Council will continue to explore new commercial opportunities (as a 'business as usual' model is clearly no longer deliverable).

In reality, the current fees are at the higher end of the scale locally, meaning that only inflationary increases are likely to be tolerated by the local marketplace.

4.1.3 Principle 3 – Allocation of Revenue Resources

- Resources will be directed to high priority and statutory services and hence away from low priority services, which will likely result in less investment in discretionary areas. With the exception of spend to save projects on lower priority services that can either cut future costs or increase revenue to enable cross subsidisation of higher priority services;
- It will seek to deliver further efficiency in its service delivery models and secure procurement savings in its new contractual arrangements, which will then be factored into future spending plans. Note that opportunities to improve efficiency reduce over time and now only deliver benefits at the margins. Similarly, effective procurement does not always deliver savings as it is dependent upon market conditions at that time.

Following the LGR announcement, opportunities for new service delivery models are not deliverable in the timeframe. Similarly, financial gains from longer term contracts will be limited by the reduced timeframe.

4.1.4 Principle 4 – Allocation of Capital Resources

- The Council will continue to prioritise schemes, for instance to generate income, to meet corporate objectives and to enhance its asset base;
- The Council will continue to ensure it provides Value for Money through the efficient and effective use of its assets. The Council will look to dispose of surplus assets in order to maximise capital receipts and reduce ongoing revenue maintenance costs associated with holding the asset. Careful consideration will also need to be used to ensure the maximum market value is achieved when disposing of assets;
- Prudential borrowing will only be made during the life of the MTFP after the production of a fully costed business case that demonstrates how the investment meets the Council's policy objectives, has exhausted all other external funding routes and delivers measurable improvement within a reasonable payback period;
- The Council will keep its internal borrowing under review and when appropriate will consider the potential to fix rates in the medium to long term to manage the risk and potential financial impact of interest rate increases. Consideration will also be given to whether the most appropriate funding mechanism is to fully utilise cash balances and undertake short-term

borrowing to meet cash flow requirements. The Council continues to consult specialist advice to keep this under review.

With LGR on the horizon, the planning of debt finances leads to ongoing commitments for the new entity. At present there is a case to undertake cheaper short term financing solutions, leaving the new entity free to re-finance as it deems appropriate in due course.

4.2 These are all underpinned by a culture of Budget Ownership across all services.

5.0 Summary of the likely changes to Local Government Funding

5.1 There are significant and wide ranging changes likely for all local authority funding streams. The main areas of change are:

5.2 Core Government Funding

The formulae used to distribute the funding for the last 20+ years is being replaced through a review called the “Fair Funding Review 2.0” (first announced in 2016). The formulae will be simplified and the underlying base data updated, leading to very different outcomes for individual authorities. Furthermore, political decisions to prioritise certain indicators, such as deprivation over sparsity give rise to significant swings in funding from one geographical area to another – something known as resource equalisation.

5.3 Business Rates

The biggest impact for the Council will be the changes announced for Business Rates. Again, many of these changes are the first since the current scheme’s introduction in 2013/14. In summary, the main changes are:

- The revaluation of the local business properties by the Valuation Office – leading to changes in the charge placed on local businesses;
- The introduction of 5 new multipliers (replacing 2 currently);
- The removal / reduction in the application of reliefs, such as that awarded to Retail, Hospitality and Leisure, as the new multipliers will now incorporate that adjustment;
- The reset of the funding baseline from that used within the current funding settlement, which was based upon 2010/11 and 2011/12. This is designed “to move business rates income retained by local authorities to the places which need it most”.

None of these values will be known until the autumn, with the levels of the multipliers and reliefs expected in the Chancellor’s Autumn Budget, the date for which is yet to be announced.

The clear outcomes of these changes are:

1. Places more responsibility on local authorities to administer the more complex scheme and increases their risk of non-collection;
2. Shifts funding from those that have most increased the business rates baseline – whether through council led initiatives, or simply through movements in valuations.

5.4 Council Tax

Perhaps the area with the least change, which remains unchanged from its introduction in 1993. There is no change to the scheme itself, or the prescribed level of the referendum limit. However, the change here is in how councils can chase and enforce outstanding debt. Government proposals include extending the timeframe before a council can enforce, and softens its enforcement capability. The outcome of this is likely to be that less council tax will ultimately be collected, reducing the Council's funding. Also changes to payment periods will have treasury cash flow implications.

5.5 Extended Producer Responsibility (EPR)

The EPR Grant was introduced late in the budget process for 2025/26. The indicative allocation of £927k was fully earmarked in the budget to set it aside to contribute to the remodelling works planned at the waste depot. Subsequently this indicative allocation has increased to £1,438k reflecting the increase in recycling rates secured after the successful implementation of Bin-It 123. Government have indicated that similar levels of funding should be available in future years, albeit that as producers reduce the volume of packaging, the grant received will fall. Therefore a prudent assumption of £1,000k is included within the MTFP.

5.6 Food Waste

Similarly, there is potential funding available to help meet the cost of weekly food collection from 2026/27. It is considered "potential" as this funding has been targeted to those authorities that have not yet moved to weekly collection. We consider this grossly unfair as our local tax payers have funded this move and therefore we assume that all authorities will be treated fairly and all receive a share of this funding in the future, hence the inclusion of £250k per annum in the MTFP.

5.7 Wider reforms are also being considered. It still remains unclear how some of the incentive funding schemes such as New Homes Bonus and Business Rates will be refocused and how some of the new proposed changes will be offset by New Burdens funding. It is further assumed that the number of separate grants available (largely through competitive bidding processes) will reduce.

5.8 It is expected (and hoped) that over and above all of these changes will be a scheme of transitional support. Currently the Government have indicated that the movement from the current formulae will be implemented across the 3-years

of the settlement ($\frac{1}{3}, \frac{2}{3}, \frac{3}{3}$). In addition, the cash impact of the change will also be “smoothed” across the 3 years (100%, 0%, 0%) – meaning there will likely be a “big bang” in 2026/27, and then funding will be frozen for the following 2 years. It is not clear if full transition to the new funding mechanisms will occur within the 3-year settlement.

- 5.9 With any significant changes to funding streams, there would normally be a level of transitional support to smooth the impact over time. Should the Council be one of those c50 authorities targeted for the largest cuts in funding this will be especially relevant, particularly in respect to business rates where we have seen significant growth in our funding.

6.0 Summary of the Medium Term Financial Plan

- 6.1 As outlined above, the MTFP takes into consideration the current financial position against the 2025/26 base budget. The Qtr. 1 forecast indicated an overspend of £232k on the General Fund, indicating that although services generally are managing their budgets well, they are feeling pressure.
- 6.2 The 2025/26 pay offer has been agreed at 3.2%, slightly above the 3% budgeted for, and forms part of that pressure. With inflation staying stubbornly above the Government’s 2% target, the assumed pay award has been set at 3% across the MTFP timeframe – adding a pressure of circa £550k per annum to the budget. Utility price increases and the growing cost of ICT software and licences form the remainder of the overall c£700k annual inflationary pressure.
- 6.3 In addition to the normal pay assumptions, the triannual pension valuation took place on 31 March 2025. This considers and sets the levels of employer contribution rates applicable across the 2026/27 – 2028/29 MTFP period. The Devon Pension Fund, along with almost all other local government pension funds across the country is now fully funded. Therefore, it is possible that we may see changes in these rates that benefit the financial position.
- 6.4 Many services are experiencing high staff turnover requiring additional temporary staff being employed to keep key services such as waste collection operational. To mitigate this pressure we continue to examine all vacancies as and when they occur. Where a role is required to maintain key service provision, for example a lifeguard or waste operative, these positions will be filled. However, where other posts become vacant, recruiting is being delayed / postponed to free up budget. Inevitably, this does impact on the quality and speed of service delivery, and this is mitigated as far as possible. A number of the budget options to be considered by the Policy Development Groups (PDGs) throughout September contain potential proposals to reduce staffing. This will only be possible through natural staff turnover and therefore cannot be

guaranteed. Furthermore, this saving will further stretch service delivery and is likely to lead to lower levels of service provision if agreed.

- 6.5 The only real mitigations come in the form of additional income from fees and charges. For example, we are able to charge for services, such as the Green Waste service, Planning and Car Parking. Some services are experiencing greater take up, i.e. Leisure and Car Parking or increasing recycle prices, however, some are also seeing the impact of the economic conditions, with Qtr. 1 forecasting a drop in income from Planning and Building Control.
- 6.6 Therefore, all options to limit costs where possible, including vacancy management processes, further service efficiencies and a review of fees and charges are being considered.
- 6.7 As there is not clarity on the potential funding, Table 1a, 1b and 1c below give a guide to the potential scale of the funding shortfall.

Table 1a – Original Assumption

Funding Stream	2025/26 Funding		2026/27 Original Funding Assumption	Movement from 2025/26	
	Settlement	Budget		£	%
	£	£	£	£	%
Revenue Support Grant	(139,800)	(139,800)	(111,840)	27,960	-20%
NNDR Baseline Funding Level ¹	(2,386,319)	(5,079,330)	(4,662,410)	416,920	-8%
Compensation for under-indexing the business rates multiplier ²	(522,972)	-	-	-	0%
Council tax requirement excluding parish precepts ³	(7,299,123)	(7,472,010)	(7,495,830)	(23,820)	0%
New Homes Bonus	(498,147)	(498,150)	(398,520)	99,630	-20%
Domestic Abuse Safe Accommodation Grant	(35,362)	(35,360)	(28,290)	7,070	-20%
Recovery Grant	(57,495)	(57,500)	(46,000)	11,500	-20%
Employer National Insurance Contributions Grant	(150,766)	(122,500)	(98,000)	24,500	-20%
Funding Floor	(739,653)	(739,650)	(591,720)	147,930	-20%
Core Spending Power	(11,829,637)	(14,144,300)	(13,432,610)	711,690	-5.03%
Add: New Extended Producer Responsibility Grant ⁴	(927,000)	(927,000)	(1,000,000)	(73,000)	+7.8%
Add: New Weekly Food Waste Collection Grant ⁵	0	0	(250,000)	(250,000)	+100%
New Core Funding Total	(12,756,637)	(15,071,300)	(14,682,610)	388,690	-2.58%

- 1 – The settlement includes a funding baseline from 2010/11 – 2011/12, whereas the Council budgets for the current 2025/26 retained Business Rates
- 2 – The settlement includes a notional figure “compensating” authorities when government have not applied inflation to the multiplier
- 3 – The settlement includes a notional council tax figure based upon an assumed taxbase and average council tax charge
- 4 – The new Extended Producer Responsibility Grant sits outside of the Settlement. The indicative allocation for 2025/26 was £927k, however recently the Government have increased this to £1,438k. A prudent assumption of £1,000k has been made for future years. Note, as producers decrease the volume of packaging, the value of this grant will also fall.
- 5 – This is a broad assumption that MDDC will qualify for this grant funding, and a high level assumption of the funding we might receive. Note the costs of delivering weekly food collect far exceed this assumed level of funding.

Table 1b – (7%) of Core Spending Power and Locally Retained Business Rates

Funding Stream	2025/26 Funding
	£
Revenue Support Grant	(139,800)
Locally Retained Business Rates Baseline Funding Level ¹	(5,079,330)
Compensation for under-indexing the business rates multiplier	(522,972)
Council tax requirement excluding parish precepts	(7,299,123)
New Homes Bonus	(498,147)
Domestic Abuse Safe Accommodation Grant	(35,362)
Recovery Grant	(57,495)
Employer National Insurance Contributions Grant	(150,766)
Funding Floor	(739,653)
Core Spending Power	(14,522,648)
7% reduction	1,016,585
Funding Forecast	(13,506,063)
Add: New Extended Producer Responsibility Grant	(1,000,000)
Add: New Weekly Food Waste Collection Grant	(250,000)
New Core Funding Total	(14,756,063)
Movement from 2025/26	315,237

1 – This simply replaces the government's outdated baseline with the local 2025/26 retained income figure, which is an approach that has been mooted by Government

Table 1b – (7%) of Core Spending Power

Funding Stream	2025/26 Funding
	£
Revenue Support Grant	(139,800)
Locally Retained Business Rates Baseline Funding Level	(2,386,319)
Compensation for under-indexing the business rates multiplier	(522,972)
Council tax requirement excluding parish precepts	(7,299,123)
New Homes Bonus	(498,147)
Domestic Abuse Safe Accommodation Grant	(35,362)
Recovery Grant	(57,495)
Employer National Insurance Contributions Grant	(150,766)
Funding Floor	(739,653)
Core Spending Power	(11,829,637)
7% reduction	828,074
Funding Forecast	(11,001,563)
Add: New Extended Producer Responsibility Grant	(1,000,000)
Add: New Weekly Food Waste Collection Grant	(250,000)
New Core Funding Total	(12,251,563)
Movement from 2025/26	2,819,737

Based on the above potential forecasts, the reduction in funding from 2025/26 levels ranges between £315k (Table 1b) and £2,820k (Table 1c). Clearly this is a substantial range and does not give any confidence where the actual reduction will fall.

6.8 When added to the assumed inflationary pressure, currently forecast to be c£600k plus relatively minor movements in Non-Service budgets, the overall

forecast shortfall for 2026/27 ranges between c£900k to c£3,300k, as shown in **Appendix 1** and summarised in the table below:

Table 4 – MTFP 2026/27 General Fund Assumptions Summary

		Assumption 1a	Assumption 1b	Assumption 1c
2025/26		2026/27	2026/27	2026/27
£000		£000	£000	£000
15,071	Expenditure	15,602	15,602	15,602
(15,071)	Funding	(14,683)	(14,756)	(12,252)
0	Annual Shortfall	919	846	3,350

Note, if the shortfall is not mitigated by ongoing savings, the shortfall remains in future years; in essence the problem has only been bumped into the future.

- 6.9 This is clearly a challenge built upon a number of assumptions, caveats, decisions based upon external advice and the most up to date information available at this time. Clearly, any major variations in these assumptions would require a fundamental review of the Council's MTFP and would be reported back to Cabinet and the wider Membership as soon as practical, coupled with proposed courses of action that could be implemented.
- 6.10 The Council has a legal requirement to set a balance budget and needs to ensure its overall costs are affordable i.e. they can be funded through income and planned short-term use of reserves. Members therefore need to take the necessary decisions and actions to manage net spending within affordable limits.

7.0 Approach to closing the Budget Gap

- 7.1 Many of the issues, assumptions and sensitivity of items included within the MTFP are complex, often inter-related and will undoubtedly be subject to variation and ultimately fundamental review depending on the levels of future funding reductions. However, strategic decisions have been ongoing to reduce the current and future operational costs.
- 7.2 In order to reduce the forecast deficit the Council will strive to constantly manage its costs and revenues by:
- Ensure fees/charges are revisited regularly and that the Council are charging appropriately for all items possible;
 - A continued reduction of discretionary service and employee costs (via vacancy management) – which may incur short term upfront costs;
 - Investigation of spend to save projects;
 - Maximise procurement efficiencies;
 - Examine different ways of delivering services to reduce costs;
 - Continued benchmarking and learning from best practice;

- Consideration of growing the residential and commercial property base to align delivery with Government funding priorities.

Some of the savings strategy shown above are now less likely to be pursued due to the current and ongoing focus on LGR.

- 7.3 Part of that saving could come from increasing income from Service Fees and Charges. Following a full review last year, many services now have delegated authority to increase fees in line with inflation. The working assumption is that this will be done.
- 7.4 During the summer, Leadership Team and services have been reviewing a range of budget options that could be considered in order to help mitigate that remaining budget shortfall across this MTFP, with a particular focus on 2026/27. Indicative areas where possible budget savings could be found will form the basis of the discussions with the PDGs. In addition the PDGs will be asked to identify further options to resolve the immediate budget gap for 2026/27 and future years.
- 7.5 In putting forward the options, officers have applied a risk level to them based upon Red, Amber, Green as follows:
- Red** – indicates the saving could be taken, but there are higher risks/ implications associated with it and therefore officers would not recommend it;
- Amber** – indicates the saving could be taken, but there are risks and implications associated that members need to be aware of / accept;
- Green** – indicates a saving that is recommended by officers.
- 7.6 Clearly there is a significant budget shortfall in 2026/27. Therefore, all possible options to increase income or reduce costs must be considered. Options will be brought forward for consideration over the next few months in the run in to setting the 2026/27 budget in February 2026. All service areas will be required to play an active role in securing future savings and the Council will also continue to consult with all of its major stakeholders, especially the tax payers, to ensure all future budgetary decisions accord with their priorities.
- 7.7 Members will appreciate that all budget options will require political support and therefore if some suggestions are deemed to be unacceptable then other savings will need to be proposed. Members should indicate where these alternatives should be sought.

8.0 Balances and Reserves

- 8.1 The Council should look to match on-going spending plans to available in-year resources. However, it currently holds an uncommitted General Fund Reserve with a balance of £2,025k, which is above the current balance of £2m set by

Full Council. However, this will be impacted by the outturn position of 2025/26 which is currently forecasting an over spend and therefore a decrease in general reserves of £232k.

- 8.2 The Council holds this reserve for a number of reasons. Firstly to deal with any short term cash flow or funding issues. Secondly to provide a contingency for exceptional one-off acts (i.e. flooding, fire, terrorism, business rate failure, etc.) and, thirdly to provide a buffer for known circumstances whose final affect is unknown (i.e. changes in legislation or major funding changes). Clearly, the more uncertainty that exists, the higher the balance required to mitigate this risk. This level of minimum reserves is assessed annually to ensure it is adequate.
- 8.3 As stated above, this plan does not include any utilisation of these reserves. However, with the scale of the deficit, it is conceivable that some utilisation may be necessary. If so, this would normally be on the basis that the reserve is replenished by the end of the MTFP period. Due to LGR, this is not likely to be possible and therefore will remain below the recommended level for the remainder of the Council's existence.
- 8.4 The Council also holds Earmarked Reserves which have been set aside for a specific purpose, such as sinking funds for asset replacement. Although these reserves are ring-fenced and not available to support the budget generally, a review of all Earmarked Reserves is undertaken annually and any identification of funding no longer required to be earmarked can be released and could be used to support the budget. As these funds are one-off, they should not be used to support ongoing expenditure and therefore only delay the requirement for the identification and implementation of a sustainable saving.
- 8.5 If reserves are required to balance the budget for 2026/27 and potentially 2027/28, the overall level of balances transferring to the new entity will be reduced and would therefore clearly have financial consequences for the inheriting organisation.

9.0 Housing Revenue Account (HRA)

- 9.1 The HRA is a ring-fenced account within the Council's financial accounting system. This means that a balanced budget must be set each year including all income and expenditure pertinent to the Council's landlord function and excluding all other income and expenditure (since this would be captured as part of the General Fund budget).
- 9.2 The draft HRA MTFP for 2026/27 to 2028/29 is summarised below:

Table 5- HRA MTFP Summary

2025/26		2026/27	2027/28	2028/29
£000		£000	£000	£000
10,282	Direct Expenditure	10,911	11,319	11,742
(16,191)	External Income	(16,877)	(17,575)	(18,145)
(5,909)	Net Cost Of Services	(5,965)	(6,256)	(6,403)
5,909	Indirect Expenditure	6,306	6,549	6,966
0	Budget (Surplus) / Deficit	541	492	763
0	Cumulative (Surplus) / Deficit	541	1,033	1,796

- 9.3 Overall the shortfall is forecast at £1,796k over the MTFP period if no remedial action is taken. This includes a modest replenishment of the HRA Reserve which was used to fund the Rent Refunds. Work is well underway with making these refunds. Should the initial forecast for the provision prove to be overestimated, this will be returned to the reserve and would alter the amount of the top-up required.
- 9.4 £250k has also been included to address disrepair costs which are seeing increasing legal and repairs and maintenance costs. This includes compliance costs arising from the introduction of the new Awaab's Law damp and mould legislation. The budget also includes provision to continue to address other issues such as fire safety and carbon reduction in line with the Council's commitment.
- 9.5 Pay inflation has been included at 3% across the MTFP in line with the General Fund. Other non-staffing related costs of providing both the repairs and tenancy services are increased by between 3% - 5%.
- 9.6 Rent policy set out by central government states that existing rents must be increased annually by the previous September's CPI rate, plus an additional 1%. At present this rate is not yet known so an assumption of 3% has been applied across the MTFP. Given CPI is currently at 3.8% (July August 2021), this is prudent but also allows for the ongoing impact of the Cost of Living and wider economic constraints.
- 9.7 Due to the current economic climate it is also assumed that garage ground rents will be retained at their current level, £275 per annum. This can be reviewed in a year's time when we may have more economic certainty.
- 9.8 With interest rates slowly falling, and with lower overall balances to be invested, income generated from interest where cash balances have been invested is also assumed to be at prudent falling levels. There is an increase in the cost of Capital Financing and interest payable reflecting the proposed investment in housing shown in the Capital Programme.

- 9.9 At the moment there hasn't been any inclusion of the possible implication of other MHCLG announcements such as Right-to-Buy and increasing the level of funding for increases in affordable housing delivery.
- 9.10 Efficiency savings will be required to offset these shortfalls. As with the General Fund, senior managers have been considering options to mitigate the shortfall and these will be brought to the Housing PDG for consideration. These include:
- Consideration of asset lifetimes for maintenance works
 - Options for rent convergence as currently being consulted upon by MHCLG.
 - Increases in garage rents and other fees and charges.
- 9.11 Any surpluses generated by the HRA are used to contribute to the Housing Maintenance Fund (HMF). This fund is designed to meet any spikes in the cost of major works in the HRA's 30-year Business Plan. The need for external borrowing will be minimised as far as possible through the use of the Housing Maintenance Fund (HMF) which currently holds over £12.1m.

10.0 Conclusion

- 10.1 The MTFP will continue to be updated to ensure it is a live document. It is subject to amendment and review by Leadership Team and Members and will provide a clear guide prior to commencing the annual budget setting process in future years.
- 10.2 Like all councils, the Council is facing an ongoing and very challenging financial future. The Corporate Plan aligns to available financial resources so that the District can be best placed to maximise cost effective delivery of its services that are valued by its residents.
- 10.3 It should also be noted that Management will continue to play a pro-active role in both reducing ongoing service costs and exploring new possibilities to raise additional income.
- 10.4 Having a realistic financial plan will enable the Council to ensure it is allocating its limited financial resources to its key priorities. The Corporate Plan sets out the Council's goals/objectives and must clearly be matched by the financial resources that are available.
- 10.5 2026/27 onwards is the most uncertain time from a government funding perspective coupled with the implementation and delivery of LGR is resulting in the most challenging budget planning process. These facts will result in many councils, including our own, having to rely on the temporary use of reserves until some urgently needed government clarity is forthcoming.
- 10.6 The imprudent use of reserves formed a key piece of feedback made to MHCLG in the response to the Fair Funding consultation provided by the S151 Officer.

- 10.7 Any finalised clarity regarding our government funding will not be provided until late November / early December which will result in urgent update papers from the S151 Officer indicating our final position for 2026/27 and the subsequent two financial years.

Financial Implications

By undertaking regular reviews of the MTFP the Council can ensure that its Corporate Plan priorities are affordable. The implications of the budget gap are set out within the paper. Many areas require greater clarity, particularly around national funding and possible changes to Government Policy. Therefore a number of key assumptions underpin the reported position, which will be refined as greater clarity is received through the budget setting process.

Legal Implications

None directly arising from this report, although there is a legal obligation to balance the budget. There are legal implications arising from any future consequential decisions to change service provision, but these would be assessed at the time.

Risk Assessment

The MTFP makes a number of financial assumptions based on a sensible/prudent approach, taking account of the most up to date professional advice that is available. However, many of these assumptions are open to challenge.

Impact on Climate Change

The allocation of resources will impact upon the Council's ability to implement/fund new activities linked to climate change, as the MTFP sets the broad budgetary framework for the Council over the coming years. However, some provision has already been included in the base budget and further evaluation/consideration will be made as the draft budget passes through the PDGs over the next few months. Significant investment is currently forecast within the Capital Programme, however this will be dependent upon full options appraisals and levels of Grant funding available.

Equalities Impact Assessment

No implications arising from this report.

Relationship to Corporate Plan

The Medium Term Financial Plan (MTFP) sets out the financial resources available to deliver the Council's ongoing Corporate Plan priorities.

Section 3 – Statutory Officer sign-off/mandatory checks

Statutory Officer: Andrew Jarrett

Agreed by or on behalf of the Section 151/ Deputy Chief Executive

Date: 22 August 2025

Statutory Officer: Maria De Leburne

Agreed on behalf of the Monitoring Officer

Date: 22 August 2025

Performance and risk: Dr Stephen Carr

Agreed on behalf of the Corporate Performance & Improvement Manager

Date: 22 August 2025

Cabinet member notified: Yes

Section 4 - Contact Details and Background Papers

Contact: Andrew Jarrett – Deputy Chief Executive (S151)

Email: ajarrett@middevon.gov.uk

Telephone: 01884 234242

Background papers:

- 2025/26 Budget
- 2025/26 Qtr. 1 Budget Monitor