

MEDIUM TERM FINANCIAL PLAN 2024/25 to 2028/29

AGENDA ITEM NO. 8

MEETING: POLICY AND RESOURCES

DATE: 11TH SEPTEMBER 2024

REPORT BY: FINANCE MANAGER AND TOWN CLERK

1.0 Purpose of the Report

- 1.1 The purpose of this report is to set out for Members' consideration and approval the Council's 2024/25 to 2028/29 Medium Term Financial Plan.
- 1.2 This report is intended to provide an executive summary of the Plan.

2.0 Background to the Report

- 2.1 Although there is no legislative requirement for the Council to produce a Medium-Term Financial Plan, ensuring a strategic and pro-active approach to the Council's financial planning is considered to be an essential element of the corporate and financial management of the Council. This is particularly important in challenging and uncertain economic times such as those being experienced at the present time.
- 2.2 This update of the Medium-Term Financial Plan covers the five-year period 2024/25 to 2028/29 and aims to review the impact of the ongoing economic difficulties and uncertainties on the Council's finances and adjust its financial strategy and budget planning as it looks ahead to what is likely to be a challenging few years.
- 2.3 The Plan also helps ensure that a link is established between the Council's strategic aims and targets and the priorities of the local community, as set out in the Service Delivery Plan, and the resources that are likely to be available to fund their delivery and achievement over the next five years.
- 2.4 It sets out the financial principles that will be applied, the national and local issues likely to impact upon the Council, and summarises the key challenges faced over the period, including an assessment of key risks.
- 2.5 It then forecasts the future financial outlook for the Council, based on a series of prudent assumptions, and sets out an indicative Revenue and Capital Budget for the five years, including projections of the likely level of Council Precept, Town Council Tax and balances and reserves.
- 2.6 The Plan puts in place the framework for the forthcoming setting of the 2025/26 Revenue and Capital Budget.
- 2.7 A copy of complete Medium-Term Financial Plan is attached to the report. However, please note that a summarised set of appendices has been included in order to save on paper, printing, and postage costs. The full set of appendices are available to view at the Council Offices, upon request.

3.0 Current Financial Situation

- 3.1 The current financial situation of the Council was summarised in the 2023/24 Revenue and Capital Budget Year-End Outturn Position Report considered and approved at the Policy and Resources Committee on 5th June 2024 and in the 2024/25 Revenue and Capital Budget Position as at 30th June 2024, circulated to all Members in July 2024.
- 3.2 These reports both confirm that the Council's finances remain in a healthy position at the present time despite the ongoing impacts of the cost-of-living crisis, and the uncertain economic situation.
- 3.3 The Council continues to deliver its services, facilities and events in an efficient and cost-effective manner and has a proven track record of achieving efficiency savings on its Revenue Budget over a number of years.
- 3.4 A saving of £341,222 or 18% achieved during 2023/24 and the reasons for this saving included:
- Savings on gas and electricity budgets due to the significant reduction in wholesale costs over the last year;
 - Significant savings on fuel costs due to a reduction in oil prices;
 - Substantially higher than budgeted investment income as a result of the significant increases to interest rates and higher balances due to the receipt of the leisure services backdated VAT claim and restrictions on capital spending;
 - Savings in staffing costs as a result of staff turnover and vacancies being held frozen during the year.
 - Savings on internal audit costs following the move to a self-employed internal auditor;
 - Significantly higher than budgeted income at the pre-school as a result of higher-than-expected attendance numbers, increased special educational needs numbers, and an increase in the early years funding rate for two-year-olds;
 - Savings on the Senior Citizens' Excursions as a result of a number of the trips being undersubscribed in 2023, and from the introduction of cash payments on a number of trips, rather than providing a meal at a restaurant;
 - Substantially higher than budgeted income at the Sports Complex as a result of increases in usage, the change in VAT treatment across a number of sporting activities, hire of the sports hall for various events, and a significant increase in bar, catering and gaming machine income;
 - Higher than budgeted income at the driving range and on golf shop sales, resulting in the service generating a surplus;
 - Savings across most maintenance budgets, on which spending can vary year on year depending on requirements.
- 3.5 These savings were achieved despite increased expenditure in excess of budget across all services due the higher than budgeted Local Government Pay Award, continued inflationary pressures on many running costs and income losses at the golf course and cemeteries.

- 3.6 However it is important to point out that a significant proportion of the savings in 2023/24 related to issues that have since been accounted for during the setting of the 2024/25 Revenue Budget and are therefore unlikely to be ongoing savings e.g. the reductions in gas and electricity costs and increases in investment income, staff vacancies, increases in sports complex income etc, have all now been built into the budget.
- 3.7 The 2023/24 Revenue Budget saving was transferred to the Council's Balances and Reserves helping to replenish and increase those balances at a time when the Council's Asset Management Plan continues to forecast substantial capital investment commitments over the longer term. This transfer to balances and reserves has helped the Council to maintain a healthy financial position, by replenishing balances at a time when significant capital investment will be required over the medium term.
- 3.8 The financial position in the early part of the 2024/25 financial year highlights that the level of savings on the Revenue Budget has been much reduced, reinforcing the view that budgets are now very lean.
- 3.9 Whilst it is still likely that the Council will still deliver a saving on its Revenue Budget, via the planned contribution to capital reserves and contingency sum, and some underspending and increased income, it is likely to be much reduced compared to previous years.
- 3.10 The Council made capital investment of £287,051 in Council and community assets last year. However a large number of projects were deferred to future years following the Council's review of the 2023/24 Capital Programme. In addition, many of the projects included in the 2023/24 Capital Programme were 'provisional' sums which did not go ahead. Projects totalling £304,250 have therefore been carried forward to 2024/25. In addition to this, a number of supplementary budget approvals in the early part of the current financial year have resulted in the Capital Programme for 2024/25 being increased to £500,410. This is a substantial programme and could result in a significant level of capital investment this year which will need to be met from earmarked capital reserves.
- 3.11 The savings delivered on the Revenue Budget last year more than offset the capital investment being made. The Revenue Budget savings taken alongside with the £195,500 HMRC receipt in respect of the Leisure Services VAT claim and the capital grants and contributions of £118,000 received in year, resulted in the Council's balances and reserves increasing from £1.662 million to £1.993 million over the course of last year.
- 3.12 The positive financial situation that the Council currently finds itself in is a significant achievement in these challenging times and is an endorsement of the prudent management and planning of the Council's finances over the last few years.
- 3.13 The decision to increase the Town Council Tax by 4.38% this year, to offset the ongoing high inflationary increases being faced (2.65%) and the cut to the Local Council Tax Support Grant (LCTRS) by Durham County Council (1.73%), has played a significant role in helping to keep the forecast future year's increases indicated in this MTFP lower.

- 3.14 In addition to this the actions taken by the Council in previous years to boost the contingency sum and contribution to capital reserves in the Revenue Budget, and monitor, control and reduce capital expenditure, have undoubtedly helped the Council to maintain a healthy level of balances and reserves.
- 3.15 This healthy financial position provides the Council with a solid foundation on which to build, as it prepares this Medium-Term Financial Plan looking ahead to the next five years up to 2028/29.
- 3.16 This will be particularly important, bearing in mind the continuing challenges that the Council faces in the years ahead linked to the current economic difficulties and uncertainties, which are summarised in more detail in the following section of the report.

4.0 Future Challenges Facing the Council

- 4.1 As alluded to above, the Council faces a number of financial challenges in the years ahead, including:-
- ❑ The ongoing economic uncertainty and the residual impacts of the cost-of-living crisis and its impact on the economy e.g. levels of inflation, interest rates and reduced consumer spending power;
 - ❑ The potential impact of the new Labour Government's manifesto promises and spending plans e.g. on the economy, taxation, National Living Wage, public spending budgets etc.
 - ❑ the agreed 50% cut to the Council Tax Support Grant funding by Durham County Council over three years 2024/25 to 2026/27;
 - ❑ the significant likely increases in the National Living Wage, and its subsequent impact on the local government pay scale, and the pressure from unions for above inflation public sector pay increases;
 - ❑ The continuing pressure on expenditure budgets from higher than inflationary increases in some areas of supplies and services, particularly on insurance costs, service contracts and capital works;
 - ❑ The risk of council tax referendum principles being extended to town and parish councils in future years;
 - ❑ Increased requests for financial assistance from community and voluntary organisations, and a limited grants and donations budget;
 - ❑ Providing for the significant future capital investment commitments facing the Council in delivering the Asset Management Plan;
 - ❑ Maintaining a prudent level of balances and reserves, whilst meeting the cost of this capital investment, at a time of reduced savings and therefore top-up of reserves from the Revenue Budget.
- 4.2 The Council relies heavily upon the Precept and therefore the Town Council Tax to fund the services it provides and is limited in its ability to raise additional funds, other than through the Precept and Council Tax.

- 4.3 The Council Revenue Budget is also reliant on Council Tax Support Grant funding totalling £172,177 per year. Durham County Council have confirmed that they will reduce this grant by 50% phased equally over three years from 2024/25 to 2026/27 (although the final figures for 2025/26 and 2026/27 have yet to be confirmed). Currently there is no indication of the level of grant to be passed to town and parish councils beyond 2026/27, and for the purpose of this plan a further 10% reduction has been assumed for 2027/28 and 2028/29. However, the risk of the phasing out of this grant altogether has also been factored into the plan as a worst-case scenario.
- 4.4 The agreed 50% cut in the Council Tax Support Grant from Durham County Council over three years has put additional significant pressure on the Town Council's Revenue Budget at a time when Precept and Council Tax increases would otherwise have been coming down to a level in line with the rate of inflation.
- 4.5 This MTFP has been prepared on the principle that current services, facilities and events will be maintained and that the proposed cuts to the LCTRS Grant will be met from an additional increase in the Town Council Tax as in 2024/25.
- 4.6 The Council continues to face pressure on some of its expenditure budgets from the stubbornly high rates of inflation on certain categories of supplies and services, higher than usual staffing cost increases linked to the National Living Wage and union pressure for public sector pay to keep pace with inflation, and possible employers' pension contribution increases at the time of the next revaluation of the Pension Fund.
- 4.7 Over half of the Council's gross expenditure relates to officer pay costs and therefore annual officer pay awards linked to the ongoing increases to the National Living Wage are likely to be one of the most significant cost pressures on the Council's Revenue Budget moving forward.
- 4.8 It is inevitable that there will be higher than usual staffing cost increases over the next few years linked to increases in the National Living Wage.
- 4.9 Based on current estimates, it is forecast that the only way to avoid the National Living Wage overtaking the lowest local government pay grade, and to retain the current 'differentials' between local government pay grades, will be for the Local Government Employers to agree an annual pay increase of between 3% to 4% per annum from 2025/26 onwards, pending a more fundamental review of the Local Government Pay Scale. This may have to increase more if substantial increases are made to the National Living Wage as has been pledged by the new Government.
- 4.10 The resulting shortfall in resources will need to be made up in the Revenue Budget via a combination of increases to the Town Council Tax, council tax base growth, efficiency savings and budget reductions, and increases to fees and charges.
- 4.11 At the same time, it is important that the Council recognises the financial difficulties being faced by local taxpayers as a result of the cost-of-living crisis and the need to keep future increases in the Town Council Tax as low as possible. This is also important in the context of council tax referendum principles being extended to town and parish councils in future years, placing a limit on how much the Council can increase its Precept by.

- 4.12 The Council is also facing the very real prospect of needing to undertake significant capital investment in its fixed assets over the medium to long term and ensuring that sufficient balances and reserves are maintained to meet these commitments. This will be a significant challenge, particularly bearing in mind the likelihood of much reduced savings and therefore replenishment of reserves from the Revenue Budget.
- 4.13 The process of balancing Council's 2025/26 to 2028/29 Revenue Budgets will continue to be challenging and the situation is likely to remain difficult over the medium to long term.
- 4.14 In summary, while the Council's finances remain healthy at the present time, and the Council has a solid foundation on which to build, this position is likely to deteriorate in the medium to long term. The Council will need to plan its Revenue and Capital Budgets carefully over the period of this Medium-Term Financial Plan in order to meet the challenges that lie ahead, protect services, facilities and events, invest in assets, maintain a prudent financial position and level of balances and reserves, and limit the impact on the Town Council Tax as much as possible.

5.0 2024/25 to 2028/29 Medium-Term Financial Plan

- 5.1 This Medium-Term Financial Plan has been prepared on the basis of the following five key principles:-
1. Continuing to provide all Council services, facilities and events and maintaining current standards of service;
 2. Identifying and delivering efficiency savings wherever possible;
 3. Ensuring continued delivery of the Asset Management Plan via the Capital Programme Budgets;
 4. Safeguarding a prudent level of balances and reserves;
 5. Implementing an increase in council tax between the years 2025/26 to 2028/29 that finds a balance between recognising the cost-of-living difficulties still being faced by local taxpayers and the budget pressures impacting upon the Council's finances in terms of pay awards and inflation, and the need to maintain the important services, facilities and events that are valued by the local community
- 5.2 This Medium-Term Financial Plan makes provision for likely future increases in costs from pay awards, inflation, and any other unavoidable spending commitments, forecast increases and decreases in income, as well as accounting for any known savings, assumed increases in fees and charges, and council tax base growth.
- 5.3 The Revenue Budget Forecast included in the Plan, is based around the latest information available from Durham County Council with regard to the future of the Council Tax Support Grant and builds in the agreed 50% cut to the grant over the three-year period from 2024/25 to 2026/27. Whilst it has been advised that there are no current plans to reduce the grant further in 2027/28 and 2028/29, it has been assumed that a further 10% cut per year will be made in 2027/28 and 2028/29.
- 5.4 The key assumptions made in preparing the Revenue and Capital Budget Forecast are set out in detail in Section 7 of the Plan.

5.5 The 2024/25 to 2028/29 Revenue and Capital Budget Forecast is set out in Section 8 of the Plan and includes projections of the likely changes to the budgets and required increases in the Town Council Tax over the five-year period and the likely movement in the Council's balances and reserves. A summary of the Revenue and Capital Programme Budget Forecast for the five-year period 2024/25 to 2028/29 is shown below:

| Budget Description | Budget 2024/25 £ | Estimate 2025/26 £ | Estimate 2026/27 £ | Estimate 2027/28 £ | Estimate 2028/29 £ |
|-------------------------------------|-------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Policy and Resources Budgets | 893,450 | 895,850 | 941,350 | 985,600 | 1,019,000 |
| Recreation Budgets | 941,600 | 968,750 | 1,002,250 | 1,044,300 | 1,078,150 |
| Environment Budgets | 223,400 | 241,900 | 246,550 | 250,800 | 255,200 |
| Contingency Sum | 13,500 | 15,000 | 15,000 | 15,000 | 15,000 |
| 2025 Elections | - | 30,000 | - | - | - |
| Less LCTSS Grant | (172,177) | (140,200) | (108,200) | (97,400) | (87,650) |
| Add Contribution to Reserves | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 |
| Total Revenue Budget | 1,974,773 | 2,086,300 | 2,171,950 | 2,273,300 | 2,254,700 |
| Capital Programme Budgets | 500,410 | 706,100 | 364,850 | 297,600 | 167,600 |
| Revenue and Capital Budget | 2,475,183 | 2,792,400 | 2,536,800 | 2,570,900 | 2,522,300 |
| <u>Less Use of Reserves:</u> | | | | | |
| Funding of 2025 Election | - | (30,000) | - | - | - |
| Funding of Capital Budgets | (500,410) | (706,100) | (364,850) | (297,600) | (167,600) |
| Council Precept | 1,974,773 | 2,056,300 | 2,171,950 | 2,273,300 | 2,354,700 |

| | | | | | |
|---|----------------|----------------|-----------------|----------------|----------------|
| Council Tax Base | 6,900 | 6,925 | 6,950 | 6,975 | 7,000 |
| Band D Council Tax | £286.21 | £296.94 | £312.51 | £325.92 | £336.39 |
| Band A Council Tax | £190.80 | £197.96 | £208.34 | £217.28 | £224.26 |
| % Increase in Council Tax | 4.38% | 3.75% | 5.25% | 4.30% | 3.20% |
| Savings Required to limit Council Tax increase to 2% | £0 | £34,656 | £66,952 | £49,942 | £27,623 |
| Savings Required to limit Council Tax increase to 3% | £0 | £14,836 | £46,315 | £28,144 | £4,809 |
| Savings Required to Freeze the Council Tax | £0 | £74,296 | £108,227 | £93,537 | £73,252 |

- 5.6 In considering the above Revenue Budget Forecast, and in particular the possible Council Tax increases in each year, **it is important to note that prior to receiving notification from Durham County Council regarding the 50% cut in Local Council Tax Reduction Support Grant over three years between 2024/25 and 2026/27, the forecast had been projecting much lower increases in the Council Tax, as set out below:-**

| Forecast excluding the LCTRS Grant Cut | Budget 2024/25 £ | Estimate 2025/26 £ | Estimate 2026/27 £ |
|---|-------------------------|---------------------------|---------------------------|
| % Increase in Council Tax | 2.65% | 2.14% | 3.69% |

- 5.7 **In overall terms, the Revenue Budget forecast, incorporating the 50% cut in the Council Tax Support Grant by Durham County Council, shows that the Council may need to increase the Precept by up to £380,000 or 19.2% over the four-year period between 2025/26 and 2028/29.**
- 5.8 However as explained above, it is important to highlight that these potential Precept increases are higher than would have been the case if Durham County Council had not chosen to cut the Council Tax Support Grant by 50% over the three years 2024/25 to 2026/27.
- 5.9 As was the case in the 2024/25 budget year, it will be important for the Council to highlight how much of any increase in Precept and Council Tax in 2025/26 and 2026/27 is down to the grant cut and how much is the 'core increase' by the Town Council to offset the various spending pressures that it faces in relation to pay increases, unavoidable inflation on running costs, and pressures on usage and income in respect of some services.
- 5.10 The need to increase the Precept also reflects the importance of maintaining a prudent level of contribution to reserves, which helps to facilitate the replenishment of the Council's earmarked capital reserves, in light of the substantial capital investment faced by the Council over the medium to long term.
- 5.11 The Revenue Budget Forecast and indicative increases to the Council Precept over the medium term have been offset, as far as possible, from efficiency savings and reduction of under-utilised budgets, as well as assumed increases in fees and charges and council tax base growth.
- 5.12 The identification of further efficiency savings is an ongoing process, although it must be stressed that significant savings were identified and removed as part of the 2023/24 and 2024/25 budget setting processes and most budgets are now extremely lean, with reduced scope to find further savings without impacting upon the quality of service provided.
- 5.13 However and there may be further opportunities for delivering efficiency savings via procurement exercises, capital investment (investing to save), income growth, tax base growth, and the completion of service reviews.
- 5.14 This may restrict the need to increase the Precept, although it is not possible to quantify any such savings and include them in this Medium-Term Financial Plan as these savings have not yet been realised.

- 5.15 **Based on the Revenue Budget Forecast included in this Plan and assumptions around limited Council Tax Base growth, and assuming that no further efficiency savings can be generated, the Council would need to consider increasing the Town Council Tax by a total of 16.5% between the financial years 2025/26 and 2028/29.**
- 5.16 **This represents an average increase of around 4.1% per year.**
- 5.17 As highlighted earlier, these potential increases in the Town Council Tax are higher than would have been the case if Durham County Council had not implemented the 50% cut to the Council Tax Support Grant.
- 5.18 The forecast Council Tax increases, excluding the Council Tax Support Grant cut, would have been broadly in line with the current rate of inflation and estimated staff pay awards at between 2.1% and 3.8%.
- 5.19 **It is important to note that *if* the full withdrawal of the Local Council Tax Support Grant is implemented by Durham County Council from 2027/28, this would potentially result in an even higher increase in council tax in the 2027/28 or 2028/29 years.**
- 5.20 It is also important to highlight that the forecast council tax increases including the Council Tax Support Grant cut, would be above the current 3% Government council tax referendum limit, if this was to be extended to town and parish councils at any stage over the coming years.
- 5.21 More detailed commentary on the key issues and financial implications in each individual year is detailed in the following part of the report.

2024/25 Revenue Budget

- 5.22 **The 2024/25 Revenue Budget was set by the Council in January 2024, when a 4.38% increase in the Town Council Tax was agreed.**
- 5.23 The increase, which was below the rate of inflation at the time the budget was set, was approved and implemented in recognition of the significant difficulties being faced by both the Council and by local taxpayers during the cost-of-living crisis.
- 5.24 For information, this increase, excluding the first year of the Council Tax Support Grant cut would have been 2.65%.
- 5.25 The 2024/25 Revenue and Capital Budget ensured the protection and maintenance of all Council services, facilities and events to current standards this year, and continued capital investment in community assets, although many budgets have now been stripped back to the bare minimum and there is now very little scope for further savings without impacting on quality of service.
- 5.26 The 2024/25 Revenue Budget also maintains some surplus resources via a contingency budget and contribution to capital reserves to ensure that Council balances and reserves can be replenished at a time when the Council is facing significant capital investment commitments over the medium to long term.

2025/26 Revenue Budget

- 5.27 Next year, the Council will continue to face pressures on the Revenue Budget as a consequence of staff pay awards and inflation, plus the second-year impact of the 50% cut by Durham County Council to the Local Council Tax Reduction Support Grant as explained in detail in the Plan.
- 5.28 Based on the latest information available in relation to the National Living Wage and Local Government Pay, the Plan is forecasting a minimum 4% pay increase across the board for Council staff next year. Around 60% of the Council's gross revenue expenditure relates to staffing.
- 5.29 In addition inflation remains high in relation to some areas of supplies and services with gas and electricity costs forecast to increase by 10%, insurance premiums anticipated to increase by 7.5%, and unavoidable increases in areas such as service contracts, machine rentals, bar supplies, catering supplies, information technology etc
- 5.30 Some increases in costs will be offset by indicative Council Tax Base growth and increases to fees and charges for services.
- 5.31 **Based on the assumptions and projections made in this Plan, in overall terms, the Council would need to increase the Precept by around £81,500 in 2025/26.**
- 5.32 **This would represent a council tax increase in the region of 3.75% next year, with around 1.6% of this increase resulting entirely as a consequence of the Council Tax Support Grant cut by Durham County Council.**
- 5.33 This increase will enable the Council to maintain surplus resources within the contingency sum and the £75,000 contribution to capital reserves.
- 5.34 **In real terms this would result in a £11 per year increase in the Council Tax at Band D and a £7 per year at Council Band A.**
- 5.35 This level of increase would be in excess of the current Government excessiveness limit on council tax increases of 3%, although these rules do not currently apply to town and parish councils.

2026/27 Revenue Budget

- 5.36 The Council faces further budget pressures in 2026/27, although it has been assumed that the economic difficulties and cost of living crisis will hopefully have eased by 2026/27 and that the rate of inflation will have fallen back closer to normal levels across most areas of expenditure.
- 5.37 A further 3% pay award has been assumed to ensure that local government pay keeps pace with the expected National Living Wage rate along with more modest further inflationary increases on some running costs as well as the final year impact of the 50% cut in the Local Council Tax Reduction Support Grant by Durham County Council.
- 5.38 Again, it has been assumed that some of these increases will be offset by council tax base growth and increases to fees and charges for services and efficiency savings.

- 5.39 **In overall terms, it is likely that the Council may need to increase the Precept by around £115,500 in 2026/27, which would represent a council tax increase in the region of 5.25%, with around 1.6% of this increase resulting entirely as a consequence of the grant cut.**
- 5.40 The higher increase in precept in 2026/27 compared to 2025/26 is mainly as a result of anticipated reductions in gas and electricity budgets being removed from 2025/26 budgets resulting in a lower increase in precept in 2025/26, whereas in 2026/27 there is a 10% increase included on these budgets. In addition to this there is the anticipated reduction in investment income in 2026/27 as a result of lower interest rates and reduced balances which will also impact on the overall precept increase.
- 5.41 **In real terms, this would result in a £15.50 per year increase in the Council Tax at Band D and £10.00 per year at Council Tax Band A.**

2027/28 Revenue Budget

- 5.42 The Council faces similar ongoing budget pressures in 2027/28, with a further 3% pay award and inflation on running costs and an assumed 10% cut in the Local Council Tax Reduction Support Grant.
- 5.43 As in previous years, it has been assumed that some of these increases will be offset by council tax base growth and increases to fees and charges for services and efficiency savings.
- 5.44 **In overall terms, it is likely that the Council may need to increase the Precept by around £101,000 in 2027/28, which would represent a council tax increase in the region of 4.3%.**
- 5.45 **In real terms, this would result in a £13.50 per year increase in the Council Tax at Band D and £9 per year at Council Tax Band A.**

2028/29 Revenue Budget

- 5.46 The Council faces a similar situation in 2028/29, with a further 3% pay award and inflation on running costs and an assumed 10% cut in the Local Council Tax Reduction Support Grant, although again these increases will be partly offset by council tax base growth and increases to fees and charges for services.
- 5.47 **In overall terms, it is likely that the Council may need to increase the Precept by around £81,500 in 2028/29 which would represent a council tax increase in the region of 3.2%**
- 5.48 **In real terms, this would result in a £10.50 per year increase in the Council Tax at Band D and £7 per year at Council Tax Band A.**

2029/30 Onwards

- 5.49 From 2029/30 onwards, National Living Wage pressures, pay awards and inflation will continue to cause stress on the Revenue Budget, in excess of efficiency savings and increased income, but **there may be some light at the end of the tunnel via more significant Council Tax Base growth from the Copelaw housing development which may help to reduce the pressure on the Revenue Budget and the need to increase the Precept and Town Council Tax.**
- 5.50 This however this is by no means guaranteed, and the Council could still find itself in a situation towards the end of the decade whereby there will be very limited surplus resources remaining in the Revenue Budget, and where all options for achieving further savings, without making cuts to services, will have been exhausted.
- 5.51 It will therefore be important that the Council continues the process of reviewing its services in the years leading up to the end of the decade, with a view to determining where possible budget cuts will be made in the longer term, if they are required.

Possible Withdrawal of the Council Tax Support Grant

- 5.52 As highlighted earlier, Durham County Council have agreed to cut the Council Tax Support Grant by 50%, phased over three years between 2024/25 and 2026/27.
- 5.53 This is a significant reduction in grant for the Council, and will see the grant cut from £204,911 in 2023/24 to an estimated £108,200 in 2026/27.
- 5.54 Whilst, at the present time there is no indication that the **Council Tax Support Grant** will be **withdrawn in its entirety** by Durham County Council, over the following two years in 2027/28 and 2028/29, it is considered prudent to set out the impact of this **'worst case scenario'** within the Plan.
- 5.55 This is particularly pertinent in light of the possibility of public sector spending cuts. Any decisions on funding reductions in the public sector were deferred by the previous government, with reductions now expected to be determined by the new Labour Government in the Autumn, to cover the period 2025/26 to 2027/28. Therefore depending upon the financial impact of the local government funding settlement, there is a risk that further significant cuts or even the withdrawal of the Council Tax Support Grant may yet be imposed by Durham County Council.
- 5.56 This plan assumes that the remaining two years of the 50% cut in the grant in 2025/26 and 2026/27 of £64,000 by Durham County Council will be met by an increase in precept in 2025/26 and 2026/27. The alternative would be for the £64,000 to be 'cut' from the Council Revenue Budget which would risk service budgets being cut or ceased, and job losses.
- 5.57 Total withdrawal Council Tax Support Grant in 2027/28 or 2028/29 would leave the Council needing to make further substantial savings to balance the Revenue Budget, or to ask the taxpayers of Great Aycliffe, potentially via a referendum, to consider a substantial increase to the Town Council Tax in order to maintain services.

- 5.58 **Withdrawal of the Council Tax Support Grant beyond the current proposed cuts for 2025/26 and 2026/27, would leave the Council needing to make up an additional shortfall of between £87,650 and £97,400 in the Revenue Budget, with the actual amount depending upon which year the withdrawal was made.**
- 5.59 This would equate to a further increase in the Town Council Tax of up to 4.5% and would add as much as £14 per year to the current Band D Council Tax bill.
- 5.60 Alternatively, a further £87,650 to £97,400 would need to be 'cut' from the Council Revenue Budget which would inevitably lead to services being cut, redundancies and job losses.

Capital Programme Forecast 2024/25 to 2028/29

- 5.61 The Capital Programme Budget Forecast in the MTFP has been based on the capital investment requirements set out in the approved 2024/25 Capital Programme Budget, including the agreed carry forward of significant on-going commitments from 2023/24, as well as the likely commitments for the following four years, as identified in the Council's Asset Management Plan.
- 5.62 **The five-year Capital Programme Budget Forecast provides for a total potential capital investment at £2 million, and this would need to be funded, in full, from the Council's Earmarked Capital Reserves.**
- 5.63 The Capital Programme Forecast focusses on investment linked to the delivery of the Council's Asset Management Plan and ensuring all essential building works and replacements of vehicles, machinery, office equipment, street equipment and play equipment are kept up to date.
- 5.64 Planned projects include various building works including roofing replacement, window replacement, heating systems, toilet refurbishment, alarm system upgrades, redecoration works, replacement works vehicles, tractors, ride on mowers and machinery, electrical machinery, golf course and driving range machinery, the ongoing programmes of footpath repairs and play area safety surfacing replacement, computer replacements and website development, festive lighting, play area upgrades, bus shelter refurbishment, bridge repairs and Ash Dieback Disease tree felling and replanting works, the A167 street lighting commuted sum renewal, School Aycliffe Wetlands footpath, council offices visitors' car park resurfacing, development of the woodland burial site, replacement of Aycliffe Village infant play area, maintenance works to West Park lakes and installation of a solar panel system to the Oak Leaf Sports Complex.
- 5.65 A full list of potential capital projects is included in Appendix B to the Medium-Term Financial Plan.
- 5.66 It is important to stress that the five-year Capital Programme Budget forecast is an indicative budget and will be reviewed on a year to year and project by project basis, in line with actual needs, requirements and priorities and the actual level and availability of Council Reserves.

- 5.67 This is in line with the recommendations made in previous year's Medium-Term Financial Plans to more closely scrutinise and control capital investment to help maintain and protect the Council's balances and reserves over the longer-term.
- 5.68 This capital investment would need to be funded, in full, from the Council's Earmarked Capital Reserves and, if all of this investment went ahead, this would inevitably lead to a significant fall in the Council's reserves.
- 5.69 It is for this reason that an annual £75,000 contribution to capital reserves was established in the Revenue Budget, which will allow the Council to partially replenish its balances and reserves in each year of the Plan moving forward.
- 5.70 Alongside this, it would also be prudent for the Council to continue its policy of scrutinising and controlling capital investment and undertaking only essential capital projects over the period of this MTFP and beyond, in order to preserve Council balances and earmarked reserves for as long as possible.

Council Balances and Reserves

- 5.71 **The Council held Balances and Earmarked Reserves at the end of the 2023/24 financial year, totalling £1.993 million.**
- 5.72 As highlighted earlier, the Capital Programme Budget forecast for the five-year period potentially totals up to £2 million and would need to be funded from earmarked reserves.
- 5.73 It is clear therefore that the Council's balances and reserves would be used up funding capital investment commitments over the next five years if they cannot be replenished via the Revenue Budget.
- 5.74 However, as highlighted earlier, the inclusion in the Revenue Budget of the £75,000 contribution to capital reserves will allow balances and reserves to be partly replenished each year and will make a contribution towards maintaining balances at prudent levels over the period of this Plan.
- 5.75 Any savings that can be achieved on the Revenue Budget over the five-year period will also be used to top up balances and reserves. However, as previously highlighted the savings removed from the budget in previous years, coupled with the ongoing pressures faced in relation to pay awards and inflation will significantly reduce the savings coming forward to replenish balances over the coming years.
- 5.76 It is difficult to accurately estimate exactly how balances and reserves may change over the five-year period due the uncertainty around the various budget pressures and the level of savings that may or may not be delivered on the Revenue Budget.
- 5.77 **Under a worst-case scenario set out in the Plan, balances could fall as low as around £300,000 by the end of the 2028/29 financial year.**
- 5.78 **However, using a more realistic set of assumptions, the Medium-Term Financial Plan forecasts that balances and reserves will fall to around £900,000 by the end of the 2028/29 financial year.**

- 5.79 Additionally, if capital investment is closely monitored and controlled, and limited to essential investment only over the five-year period, balances and reserves would be higher still and may be able to be maintained at a prudent level of closer to £1 million over the five-year period of the Plan.
- 5.80 **A balances and reserves level of £1 million would be considered to be the minimum for a 'prudent level of balances' bearing in mind the capital investment commitments faced over the longer term.**
- 5.81 A detailed projection of the likely movement on the Council's Balances between 2024/25 and 2028/29, under the two scenarios highlighted above is attached in Appendix C to the Plan.

6.0 Overall Conclusions

- 6.1 **The Council remains in good financial health at the present time** with a balanced Revenue Budget in place for the 2024/25 financial year and healthy levels of balances and reserves. The Council is therefore **working from a strong foundation** and is better placed than many town councils in dealing with the financial implications of the ongoing economic uncertainty and the residual impacts of the cost-of-living crisis, and **maintaining a healthy financial position over the medium term.**
- 6.2 **However, the medium-term outlook for the Council's Revenue Budget over the next five years remains challenging.**
- 6.3 In particular, the 50% reduction in the Council Tax Support Grant by Durham County Council between 2024/25 and 2026/27 has and will continue to put additional pressure on the Town Councils Revenue Budget. This plan has assumed as a key principle that current services will be maintained and that, as in 2024/25, the further cuts in the grant in 2025/26 and 2026/27 will be met from an increase in the Precept and Town Council Tax.
- 6.4 The previous decisions to increase the Town Council Tax by 7.5% in 2023/24 and by 4.38% in 2024/25 to offset the Council Tax Support Grant cuts and the significant inflationary increases during the cost-of-living crisis have helped to ensure that the Council continues to be in a strong position to deal with the ongoing budget pressures and has played a significant role in helping to keep the future year's increases indicated in this MTFP lower.
- 6.5 Based on the assumptions and projections made in this Plan, **the Council may need to increase the Precept by around £81,500 in 2025/26. This would represent a council tax increase in the region of 3.75% next year.**
- 6.6 **However, this increase would only be 2.1% if the Council Tax Support Grant was not being cut so severely by Durham County Council.**
- 6.7 **Between 2026/27 and 2028/29, assuming that inflation remains low and pay awards fall back to a level of 3% and notwithstanding the fact that 2026/27 will be the final year of the cut in the Local Council Tax Support Grant, the Council is looking at further Precept increases to balance the Revenue Budget in the region of £298,000 over the three years.**

- 6.8 **This would result in Council Tax increases of 5.25% (3.7% excluding the Council Tax Support Grant cut) in 2026/27, reducing to 4.3% and then 3.20% in 2027/28 and 2028/29.**
- 6.9 Any decision to increase the Town Council Tax will need to recognise of the cost-of-living difficulties still being faced by local taxpayers, balanced against the cuts to the Council Tax Support Grant and other budget pressures faced by the Council, the need to maintain the services, facilities and events valued by the local community, ensure that the capital investment identified in the Asset Management Plan can be delivered, and maintain Council balances and reserves at prudent levels.
- 6.10 It is also important to stress that the Revenue Budget Forecast has been prepared on the key assumption that the current 3% Government limit on principal council tax increases will *not* be applied to larger town councils. If this was to change, the financial forecast would worsen significantly and there would be a need to deliver savings of up to £95,000 to balance the budget.
- 6.11 **It is also vital that the Council aims to maintain surplus resources in the Revenue Budget for as long as possible**, in order to provide protection against any unforeseen budget pressures and ensure that earmarked capital reserves can be replenished each year and maintained at prudent levels to fund future year's capital investment commitments.
- 6.12 **The Council has significant capital investment commitments with potential spending of up to £2 million over the next five years.**
- 6.13 **Council balances and reserves will therefore fall significantly over the five-year period**, although this will be mitigated by the contribution to capital reserves, contingency sum, some limited efficiency savings on the Revenue Budget and restrictions on capital expenditure, and the Council should hold balances of at **between around £300,000 and £1 million at the end of the 2028/29 financial year.**
- 6.14 **A balances and reserves level of £1 million would be considered to be the minimum for a 'prudent level of balances'.**
- 6.15 In the longer term it is also apparent that the process of balancing the Revenue Budget will remain challenging as the Council moves beyond the life of this Plan towards the end of the decade.
- 6.16 The Council faces further increases in staffing costs linked to future increases in the National Living Wage and possible complete restructure of the local government pay scale, and inflation on running costs, although it is hoped that the pressures will ease as the economy recovers.
- 6.17 However, towards the end of the decade, the Council may reach the position whereby it may need to begin using up the resources set aside in the contingency sum and contribution to capital reserves in order to balance the Revenue Budget.
- 6.18 This could lead to a situation towards the end of the decade whereby there will be very limited surplus resources remaining in the Revenue Budget, and where all options for achieving further savings, without making cuts to services, will have been exhausted.

- 6.19 The Council may therefore need to begin the difficult process of considering reductions to services and reassessing its priorities in light of the limited resources that will be available.
- 6.20 There may be some light at the end of the tunnel via more significant Council Tax Base growth from the Copelaw housing development which may help to reduce the pressure on the Revenue Budget and the need to increase the Precept and Town Council Tax.
- 6.21 These issues will need to be considered, in detail, via future budget setting processes, when the options for delivering any required budget reductions and efficiency savings, if these are required, would need to be drawn up and agreed.
- 6.22 It will therefore be important that the Council continues with its programme of service reviews and annual appraisal of the Council's strategic aims and community priorities, in the years leading up to the end of the decade, with a view to determining which services are to be protected and where possible budget cuts will be made in the longer term, if they are required.

7.0 Policy Implications

- 7.1 The preparation and annual update of the Medium-Term Financial Plan helps the Council conform to the following Strategic Aims:-

Aim 1 "To provide good quality governance and management of the Council"

Aim 2 "To manage the Council's finances and assets in a responsible manner".

8.0 Staffing Implications

- 8.1 Service Managers have been consulted with and involved in the update of the Medium-Term Financial Plan.

9.0 Financial Implications

- 9.1 The financial implications for the Council are fully set out in the report and the attached Medium-Term Financial Plan.

10.0 Crime and Disorder Implications

- 10.1 None.

11.0 Equal Opportunities Implications

- 11.1 None.

12.0 Environment, Biodiversity and Climate Change Implications

- 12.1 None.

13.0 Risk Assessment

- 13.1 A full risk assessment is included in Section 11 of the Medium-Term Financial Plan.

14.0 General Data Protection Regulation (GDPR)

14.1 There is no personal or sensitive data required for this proposal which may have any implications for GDPR.

15.0 Recommendations

15.1 It is recommended that the 2024/25 to 2028/29 Medium Term Financial Plan is approved.