



Financial Strategy (2026 - 2036)

Focus on 2026/27 to 2028/29

1. Introduction

- 1.1 This Strategy is updated and presented annually. It includes a ten year Medium Term Financial Plan (MTFP) which looks ahead over that period to give a projection of our financial position with actions needed to ensure financial sustainability and the ability to set annually balanced budgets.
- 1.2 This time the landscape is remarkably different, the Fairer Funding Review (FFR) brings significant funding reductions from 2026/27 and there is the backdrop of Local Government Reorganisation (LGR). On the current timelines this gives us only two more years of setting budgets before a successor authority is in place.
- 1.3 Although modelling has been undertaken under the normal premise of ten years, this Strategy's focus is dealing with the next two years of still being a Council with the effects of significant funding reductions from the FFR. We need to consider implications of possible delays in reorganisation and to ensure we continue to be financially responsible in our decision making in the interests of the public, no matter what successor arrangements are in place.
- 1.4 This Strategy considers the legacy this Council wants to deliver in its remaining time.

2. About this Strategy

- 2.1 Our Financial Strategy considers the General Fund ¹ position and the Capital Programme ², the third area of the Council's finances the Housing Revenue Account ³ is reviewed and monitored separately within its own business plan which is currently under review.
- 2.2 The purpose of this Strategy is to define how the Council will structure and manage its finances to deliver services to residents and support the objectives detailed within the Council Plan.
- 2.3 The Strategy also links with other key plans and documents of the Council including Directorate Plans, Strata Business Plan, Procurement Strategy and the Treasury Management Strategy.
- 2.4 The Strategy comprises two parts.

➤ **Part A - The Medium Term Financial Plan Model (MTFP)** (page 3)

This is an essential part of the budget setting process. The MTFP provides a financial model and forecast of the cost of providing services over a rolling ten year period, together with an estimate of the financial resources that are likely to be available to the Council. The process is designed to provide an early warning of any potential deficit in the required level of resources.

Definition Note:

1. The General Fund records day to day spending and income on the delivery of Council services.
2. Capital programme spending relates to purchases or enhancements of assets, expenditure that has benefit greater than a year and is over £20k.
3. Housing Revenue Account records day to day spending and income on Council owned housing and its land and landlord functions

As well as considering the General Fund, the MTFP also reviews the affordability of the Council's capital investment programme, matching forecast funding against planned capital spending over a five-year horizon. The capital programme is easier to control as individual schemes can be approved or not by Council to match resources available. Clearly this has its own implications in meeting the Council Plan objectives but does not have the same degree of organisational complexity as the General Fund involving significant staff numbers, team interaction and service delivery.

➤ **Part B – Financial Sustainability Actions** *(page 12)*

This part of the Financial Plan considers how the Council will balance its finances over the coming years to continue to provide service for its residents and customers. It ensures we are challenging ourselves to achieve Value for Money and seeks efficiencies, savings and income maximisation. Key actions and enablers are identified to aid us in this process.

➤ **Part A - The Medium Term Financial Plan (MTFP)**

3. Introduction

- 3.1 The development of a ten year financial model is based upon a number of assumptions and perceived risks which clearly become more difficult to predict as the period covered lengthens. In recent years we have been subject to one year only financial settlements from Government, there have been fundamental funding reviews proposed, delayed, and then cancelled on several occasions making even short-term planning difficult.
- 3.2 The Council's Financial Strategy for many years has highlighted the impending risk, signalled by consecutive Governments, of a fundamental review of how funding is allocated to councils. The particular risk to us being the rebasing of retained business rate income currently worth an additional £5.3m in the current budget.
- 3.3 The current Government has now instigated that review with proposals to be implemented in 2026/27; the Fairer Funding Review 2.0 was published with consultation closed on 15th August 2025.
- 3.4 The details contained in that consultation has significant negative financial implications for us, to this needs to be added Local Government Reorganisation with a successor authority being formed from April 2028, giving this Council, in theory, only two more years of budget setting – 2026/27 and 2027/28.
- 3.5 This Council has been highlighted by the Ministry of Housing, Communities and Local Government along with 40 other district councils and 9 London boroughs as to be worst affected by the proposed changes. The main driver for this is the rebasing of business rate income and loss of retained business rate growth.
- 3.6 Although the modelling has been completed for the ten year period, as would be the norm and details are contained in the Appendices, the Strategy places focus on the next two years.

4. The Fair Funding Review 2.0

- 4.1 Fair Funding Review 2.0 (FFR) attempts to refresh the methodology for distributing a fixed pot of funding between local authorities covered by the local government finance settlement (London boroughs, English unitaries, metropolitan districts, shire counties, shire districts, fire authorities, the Greater London Authority and certain Combined Authorities which receive settlement funding for their fire functions).
- 4.2 The last time the underlying distribution methodology was refreshed through changes to formulae and data was in 2013, at the time of the setting up of the business rates retention system. All authorities' settlement funding assessment was largely distributed on the basis of the predecessor formula grant which was made up of a needs assessment, resource adjustment, a central allocation and caps on year-on-year change ('damping'). The 'damping' was never 'unwound', so the allocations which have been in use since 2013/14 did not even apply the assessed need intended by that methodology in full.
- 4.3 This major share of the settlement funding assessment was split 60/40 between Revenue Support Grant and the 50% value of locally raised business rates (Baseline Funding Level). Subsequently, the RSG was reduced to deliver reductions to council funding while BFL grew in line with the change in the business rates multiplier.
- 4.4 Key factors of the current funding model are the 50% business rate retention scheme and the New Homes Bonus Grant. Both these income streams are incentives designed to reward and encourage authorities to plan and support business and housing growth in their areas. As members will be aware East Devon has been significantly advantaged by these schemes, the FFR 2.0 is proposing to retain the incentive of business growth, but it is rebasing all growth income to date and reallocating based on its needs assessment and then business rate retention to start again. The New Homes Bonus Scheme is proposed to cease completely.
- 4.5 The last full assessment of relative needs and resources is 12 years old and because of the tweaks over the years the relationship between it and actual allocations through the Settlement Funding Assessment has been weakened since then.
- 4.6 In addition, the Government is considering rolling in further grants, such as nearly £10 billion of social care funding, and importantly for us homelessness grants into the Settlement Funding Assessment, thus subjecting them to the FFR process.
- 4.7 All in all, this means that the FFR will have a fundamental impact on local authority funding that is difficult to predict until the Government makes its final decisions and publishes the details.
- 4.8 The Ministry of Housing, Communities and Local Government (MHCLG) is planning a Finance Policy Statement in late October/early November where we can start making conclusions on the final implications, with individual authority settlement numbers being published initially indicated the end of November but this has now been delayed with the Treasury confirming that the Autumn Budget will take place on 26 November. As there are interactions between the Budget and

the Local Government Finance Settlement, particularly for the business rates system with the Budget usually confirming measures such as tax rates and reliefs. This means the provisional Settlement is likely to be published the 1st or 2nd week of December.

- 4.9 The Council needs to plan before these dates, the general direction of the FFR have been considered in our MTFP supported by work of LGFutures. This is a changing picture and LGFutures with other local authority finance specialists are involved in direct conversations with the Department to help build a likely position.

5. Fundamental principles

- 5.1 As a broad principle the model has been developed on the basis of 'reasonable and prudent' forecasts and assumptions in accordance with sound accounting practice. Underpinning this plan, the following fundamental principles have been adopted:

- To secure the financial stability of the Council.
- Annually, a balanced revenue budget will be set with expenditure to be limited by the amount of available resources.
- The General Fund balance will be maintained at the agreed adopted level.
- If required to balance the budget resources will be redirected from low to high priority services to meet objectives set out in the Council Plan and maintain statutory functions.
- Council Tax increases will be kept within annually announced government guidelines to ensure a local referendum is not triggered.

- 5.2 In considering the capital budget, the Council will continue to follow the methodology of scheme scoring and prioritisation. The Council will also seek to maximise the use of its assets.

6. Financial background

- 6.1 Since 2010 this Council along with other authorities have seen significant cuts in general Government funding to support core service delivery. Funding for local authorities is historically low with an increasing number of Councils issuing or threatening to issue s114 notices – emergency measures where they are close to bankrupt and prevents all but essential spending to protect core services. For councils with adult social care and children services the financial pressures are particularly acute.

- 6.2 The Government sees Local Government Reorganisation as a key part of achieving financial sustainability for local authorities through savings that can be achieved.

- 6.3 In our own recent MTFP we have seen financial pressures with high inflation, driven by high energy and food costs, and the implications of a low growth economy.

Consequently, recent high national pay awards and other direct cost implications mainly associated with contractor and partner costs, although we are seeing a slow return to the Treasury's target 2% inflation rate it is currently stubbornly staying around 3%. There has been an upturn in investment income through interest rate rises in recent years although these are expected to drop as we go forward and there is an ever increasing call on our services with the associated costs.

- 6.4 These factors have shaped the finances of the Council over recent years and placed it in a continuous difficult position of setting balanced budgets. The Council has an excellent track record of delivering balanced budgets, meeting its spending plans and Council Plan outcomes through careful financial management and planning, the Council set a balanced budget for 2025/26, and current monitoring shows we are on track to deliver this.
- 6.5 The Council has facilitated and encouraged business and housing growth in the district to deliver its ambitions and benefited significantly in additional government funding through New Homes Bonus and significantly from extra Business Rate income which to date has put the Council in a stronger financial position when compared with other councils. This has enabled continued significant investment in non-statutory services to benefit the district. This advantageous funding position comes to an end in 2026/27 with the implications of the FFR. There is also an impact on specific service areas like culture and tourism with the ending of other funding streams like UKSPF.

7. Medium Term Financial Plan

- 7.1 The base for the MTFP is the 2025/26 approved budget and the current cost of ongoing services, adjusted to take account of a range of unavoidable costs such as pay increases, inflationary pressures, the implementation of any approved changes to the budget and any costs arising from new legislation and associated regulations or changes in resident demand. The MTFP takes account of any forecast variations in the level of both investment and fee income.
- 7.2 The Plan also considers and makes reasonable assumptions about the likely incomes from council tax and central government funding, which as outlined is extremely difficult to estimate with the implications of FFR and the new funding regime to be implemented in 2026/27.
- 7.3 The MTFP is designed to model scenarios and to aggregate the sum of all potential financial inputs, to determine whether the Council will have sufficient resources to achieve its objectives, or indeed whether action is required to bridge a funding gap. In formulating these calculations, several assumptions have been made and a range of external influences considered. The various risks and pressures are detailed at the end of the Strategy with commentary on their potential impact.
- 7.4 Appendix A to the Financial Strategy contains the summary page of the MTFP including an analysis of costs and inflation rates applied.
- 7.5 A similar exercise has been undertaken in respect of future capital expenditure, detailing the anticipated level of resources required, together with potential funding sources available to the Council to support its planned programme of works and where there are revenue implications these have been acknowledged within the Plan.

8. MTFP – Revenue Position

8.1 The position on General Fund services is extracted in the table below and shows the current year 2025/26 for comparison and forms the basis from which future assessments have been made. The 2025/26 position is the set budget, the implications effecting this budget are considered going forward.

Key areas to note in this calculation:

Service Budgets - This position is calculated based on current service provision adjusted where there are known changes, contract agreements or legislative requirements. This position does not include any growth in service or staffing to the Council's current service level, areas to highlight:

- **Recycling and Waste Contract** – The current contract ends in June 2026 with the decision made to operate a LATCo from this point. In the current year we have funded associated mobilisation costs of £641k from the Transformation Fund and the MTFP includes a further £314k in 2026/27. The Business Case stated annual savings of £700k in comparison to the current contract; this has been reflected in the MTFP.
- **Carbon reduction actions** - The MTFP assumes a commitment ongoing of £323k per annum which although significant and beyond most Councils financial commitment it is still far short of the full requirement. Without government or other external support, the Council or a successor authority is unlikely to have the financial ability to meet a full programme. There is a significant balance of unspent funding from previous years totalling £953k at the end of 2024/25.
- **Pay and general inflation** - The 2025/26 budget for staff salaries was based on an assumed 2% increase. The actual agreed pay award was at 3.2%. The difference has now been updated in the MTFP. A 2% increase has been assumed going forward but inflation remains above this Treasury Target, an additional contingency sum has been included in the MTFP of £200k.

A £314k additional cost for recent national insurance increases has been factored into the MTFP, this being the sum not covered initially by Government funding.

- **LED** – A reduction in Service Level Agreement has been included in the MTFP at £200k based on the current year figures and discussions. The scale of this reduction has

potential to increase but included as this sum to be prudent at this stage.

- **Planning Fees/Income** - We have seen fee income returning in this area and will be reassessed during the detail budget stage. Inflation rise has been assumed in fee charged based on legislation in place, recent government consultation includes details of further increases to recover local authority costs the position will be monitored but at this stage this has not been reflected in the MTFP. This does have a significant impact on the position and could be in the region of an additional £1m, but can not be relied on at this stage.
- **Staff and other resources; Service Area pressures** – Service pressures have been highlighted mainly as an implication of a growing district, in particular for Streetscene. This has not been included as an additional cost as the MTFP is already showing a significant deficit without additional new posts being added to the equation. These areas will have to be worked through in the detail budget preparation.
- **Council Tax Payments** – The Government is proposing to implement instalment payments for Council Tax to be set over 12 months as the default rather than the existing 10 months. This will have cash flow implications on the Council equating to an estimated cost of £255k. It seems likely this will be implemented so has been factored into the MTFP

8.2 There are key projects which the Council has promoted with urgency as time is ticking on the continued existence of the Council, this Strategy is defining them as **legacy projects**. These are listed below for endorsement in this Strategy as key projects to be delivered and the funding is considered in the context of the MTFP.

➤ **Delivery of Cranbrook Leisure Centre**

An initial funding allocation has been approved from the Enterprise Zone funds to meet preparatory costs. Further work is required to refine the total capital budget requirements and to determine external funding available.

The current timeline is:

- An outline Business Case and request for Capital Budget is anticipated in November 2025.

- Agreement to award a Construction Contract decision anticipated early 2027.

The capital costs have not been factored in the MTFP at this stage, the business case will have consider external funding and the ongoing contribution such a facility can make to debt charges.

➤ **Securing the future of Leisure provision and ensuring value for money**

Members will be aware of the work and decisions made to date which have been considered under Part B committee reports. Budgets have been approved for work to date and no further sums have been assumed in the MTFP.

➤ **Delivery of a New Town Development Corporation**

Reports have been presented and members ambition made clear over the approach to be adopted with the development of the new town. It is hoped significant government funding will be obtained but there is still likely to be an ask on the Council's funds, this could be in region of £2m over the next 2 years. This is beyond the existing financial envelope of the Council and there will be a need to explore the possibility of Enterprise Zone funding combined with capitalisation, if approved by Government, part maybe be achievable through the revenue budget if sufficient savings/increased income can be found elsewhere.

➤ **Community Asset Transfer**

This is in progress and decisions underway, internal resources required to make progress can be funded from existing budgets/reserves. There are no implications identified currently on the MTFP and in the remaining time of the Council this is likely to have little or no financial benefit.

➤ **Implementation of LATCo for recycling and waste management**

Another area that is progressing to begin operation in July 2026. The mobilisation budget has been approved, and no further costs are expected to be required in terms of implementation. Ongoing contract payments have been factored into the MTFP.

8.3 The Council's [Budget Book 2025/26](#) is a useful reference as it details significant information about the service provision currently provided; costs and income received, staffing resources involved in each area, the assets utilised and number of service users.

8.4 **Government Funding** – As covered in section 4 of this report the FFR to be implemented in 2026/27 has a significant effect in reducing this Council's funding mainly from the business rate rebasing where currently we receive £5.3m. As stated we have used LGFuture modelling to help inform our assumptions in the MTFP. Main areas are considered below and this is based on the consultation document, the final position is unlikely to be known until early December.

- **Business Rate income**

LGFuture's assumption have been used in the MTFP – Current growth is rebased with a new Baseline Funding Level implemented. There is still a level of retained growth income reflected of £1m, this being the additional growth still retained from the date of rebasing to the point of the 2026/27 budget year as the existing 50% rate retention scheme continues.

It is assumed the Devon pooling arrangements will cease which did attract extra income for us (£453k in 25/26).

- **New Homes Bonus**

This is to end with no successor scheme (£685k in 25/26).

- **Transitional Funding**

This protects councils where year on year funding under the formula gives reductions. The move to the final lower assessment is managed over 3 years; 1/3rd reduction in year 1, 2/3rd reduction in year 2 and then the full reduction in year 3. There is also a protection based on a no cash worse off (ignoring inflation) but this has not applied in our position, as we were specially informed by the Department in our case along with 50 or so other councils we would be looking at possibly -5% as our floor calculation. This is a reduction from the 2025/26 base year and fails to address the actual position of inflation and demand pressure costs on the Council. Transitional Funding assumed is still significant with £5.9m in 26/27, £4.6m in 27/28 and £3.4m in 28/29.

- **Rolled up Grants in main funding formula under FFR**

Both the Homelessness Grant (£330k) and the NIC Grant (£283k) are proposed to be included in our overall funding assessment rather than direct grants. These have been deleted from the Service line within the MTFP and now form part of the overall government funding assessment.

- 8.5 **Council Tax** - The Government has for a number of years determined rural district councils can increase their council tax by £5 a year or up to 2.99% whichever is the greatest before triggering a local referendum. This is the level of income the Government assess is available to the Council and the MTFP applies this increase annually. The same principle is within the FFR. The percentage increase is now the greater sum for us rising the Council Tax from £171.78 in 2025/26 to £176.92 in 2026/27.

9. MTFP numbers

- 9.1 An extract from the MTFP is given below, the main body of the report only includes the next 3 years, the full 10 year position is contained in the appendices:

This column gives the current year budget (2025/26) which is balanced, this is the base year to which
adjusts are then made going forward.



EAST DEVON DISTRICT COUNCIL - MTFP summary Page										
GENERAL FUND REVENUE BUDGET FORECAST										
Note	BASE									
	2025/26 Total	Addition	2026/27 Reduction	Total	Addition	2027/28 Reduction	Total	Addition	2028/29 Reduction	Total
BUDGET SET	25,878,510			25,878,510			27,401,584			27,617,012
AMENDMENTS TO BUDGET INCLUDING BUDGET VARIATIONS										
1 One off Items of expenditure from Earmarked Reserves			373,455	(373,455)						
2 EDDC Elections (budget 2023 + inflation)					182,500				182,500	(182,500)
3 Staff & Resourcing for new town preparation, £200k in base, budget approval ends 25/26			200,000	(200,000)			0			0
4 National Insurance increase not covered in base budget, identified in 25/26 budget report		324,000		324,000						
5 Implications of 2025/26 pay award 2% allowed, agreed at 3.2%		204,704		204,704						
6 Council approved LATCo Recycling & Waste additional sum 26/27 for implementation		314,000		314,000		314,000	(314,000)			
7 Supplementary Estimate approved in 25/26 for Out of Hours payments		75,000		75,000			0			
8 Cash Flow implications of changes to Council Tax payments being over 12 months		255,000		255,000			0			
9 Latest indication inflation staying around 3% assume contingency on Pay Award etc		200,000		200,000			0			
10 Establishment saving through vacancies not achieving traditional £450k, reduce to £300k		150,000		150,000			0			
11 Homelessness Grant & NIC grant now rolled into FFR		613,000		613,000						
12 Savings related to LED Contract			200,000	(200,000)			0			
13 Savings assumed through Recycling & Waste LATCo			525,000	(525,000)		175,000	(175,000)			
14 Ongoing replacement of IT kit		100,000		100,000						
15 Actuary reducing rate on superannuation as over 100% funded - assume £192k reduction			192,000	(192,000)			0			
	0	2,235,704	1,490,455	745,249	182,500	489,000	(489,000)	0	182,500	(182,500)
INFLATION										
12 Employee Pay Award		352,091		352,091	355,039		355,039	362,139		362,139
Employees Other Costs		14,946		14,946	15,245		15,245	15,550		15,550
Superannuation		72,795		72,795	78,091		78,091	79,653		79,653
National Insurance		41,992		41,992	36,352		36,352	37,079		37,079
13 Inflation Summary - expenditure		742,599		742,599	668,832		668,832	686,616		686,616
14 Inflation Summary - fees, charges & contributions		(446,599)		(446,599)	(449,131)		(449,131)	(458,113)		(458,113)
TOTAL INESCAPABLE BUDGET CHANGES	0	777,825	0	777,825	704,428	0	704,428	722,924	0	722,924
SERVICE PLAN COMMITMENTS NOT INCLUDED IN BASE BUDGET										
15 None identified				0	0		0	0		0
TOTAL "UNAVOIDABLE" CHANGES TO BUDGET	0	3,013,529	1,490,455	1,523,074	886,928	489,000	215,428	722,924	182,500	540,424
PREDICTED BUDGET REQUIREMENT										
	25,878,510			27,401,584			27,617,012			28,157,437
FINANCED BY:										
Business Rates - New Baseline Funding Level (LGFutures Assessment)	3,789,000			3,478,000			3,544,000			3,608,000
Business Rates - Uplift (LGFutures Assessment)	4,835,000			1,077,000			1,097,000			1,117,000
Business Rates Pooling Gain (assume no Devon pool going forward)	453,000			0			0			0
Revenue Support Grant (LGFutures Assessment)	282,190			330,000			337,000			343,740
Minimum Funding Floor	2,096,870			0			65,000			604,000
Transitional Funding	0			5,859,000			4,620,000			3,383,000
EPR Grant	899,000			916,980			935,320			954,026
Council Tax 2025/26 = £171.78 - Growth in base 500 each year, Assume + £5 per annum increase or 2.99% which is ever greater	11,190,182			11,613,227			12,051,565			12,505,734
Interest Income (assume similar interest rates to 25/26 predictions, but effect of less cash)	2,071,410			1,571,410			1,571,410			1,571,410
Interest & Loan Repayment - assume Loan Debt increase of £4m allowance (MRP + 4% interest)	(1,260,757)			(1,553,757)			(1,846,757)			(2,139,757)
Council Tax Collection Fund Surplus	464,120			0			0			0
Earmarked Reserve - one off items of expenditure (including Transformation Fund)	373,455			0			0			0
New Homes Bonus	685,040			0			0			0
General Fund Balance - District Elections	0			0			182,500			0
GENERAL FUND BALANCE	0			0			0			0
TOTAL	25,878,510			23,291,860			22,557,038			21,947,153
<i>(Abbreviations used - NHB = New Homes Bonus, N.I = National Insurance, NNDR = National Non Domestic Rates)</i>										
ANNUAL (SURPLUS)/DEFICIT	(0)			4,109,724			5,059,974			6,210,284
IN YEAR ADDITION TO ANNUAL (SURPLUS)/DEFICIT										
				4,109,724			950,250			1,150,309
Taking two year position 2026/27 and 2027/28		9,169,699								

This line shows the annual projected deficit in our budget if no action is taken. The annual deficit in 2026/27 is £4.110m and the deficit in 2027/28 is £5.060m. These deficits are the result of a growing cost base against a significant decrease in funding with the effect of the FFR to be implemented from 2026/27.

10. MTFP Revenue - The Way Forward

10.1 If we consider the next two years 2026/27 and 2027/28 which at this stage under the Government timetable of LGR are the remaining two years of this Council.

10.2 From the details of the MTFP the two year gap equates to **£9.170m**

- The £9.170m is the total budget deficit for the two years together, it assumes no savings are made in 2026/27 so the deficit for that year of £4.110m remains in the base budget for 2027/28 with a further deficit added of £0.950m created in 2027/28.
- The deficit over the two years derives in the main from service change costs in the order of £2m, whilst at the time £7m of overall funding has been lost, a large part due to the implications of the FFR.

10.3 The options available to meet the **£9.170m** deficit if we only focus on the next two years are outlined below.

- **Reserves available** – The Council has reserves it has set aside to assist in a likely cliff edge from funding reductions, other reserves are also available that are considered appropriate to use at this time in setting budgets over the next two years prior to LGR. The obvious reserves are listed below for consideration but there are others available that the Council may consider appropriate to use as they have been set aside to deliver specific outcomes which with a limited timeframe now available it would seem sensible to review. This review of reserves is currently taking place with managers to assess where projects and schemes are, and further details can be brought forward in the detailed budget process.

The use of reserves to fund budget deficits would not normally be recommended as this does not solve the underlying budget gap. The circumstance of LGR is different, with the limited timescales available to reshape our budgets. It would seem inappropriate and impracticable to drive the necessary reductions, resulting in significant service cuts in just a two year period at a time when proposals for a successor authority are being drawn up. It was intended that the reserves would give time for the Council to make the necessary changes.

The business cases nationally being prepared for reorganisation are on the premise that savings should be derived, this is an overarching reason for the change, the need to make local authorities financially sustainable which is currently not the case. MTFP deficits across Devon need to be considered in designing an authority that achieves the required level of savings. A significant element of the reserves have been set aside by this Council as a mitigation of a spending review outcome to give the Council time to reshape against a cliff edge funding reduction.

Further in discussion with MHCLG with those councils worst hit by the FFR they are expecting the utilisation of reserves to help meet funding losses as an immediate response. Their analysis shows those authorities worst hit in the main have higher levels of reserves as they have benefited from the current funding regime. This was countered by authorities, but the statement was made.

Reserves Available		
MTFP Risk Reserve	(3,712,000)	
Transformation Reserves- uncommitted TBC	(1,481,000)	
GF headroom above min (Leaving £3.5m)	(1,300,000)	
Review of other reserves	TBC	(6,493,000)

- **Capital Dispensation** – Councils can apply to Government to treat certain revenue expenditure as capital if they are one off costs to aid better service delivery or generate savings. These costs can then be funded through capital resources including borrowing, although the use of capital receipts would be preferable so not increase revenue costs long term. DHCLG have indicated that they will look favourable under the current circumstances on such requests.

The costs associated with the LATCo mobilisation could be scored against this concession; currently £0.641m being funded from the Transformation Reserve and £0.314m from the 2026/27 budget. These costs having been factored into the MTFP and use of reserves, instead this cost could be capitalised.

Capital Dispesation (need to apply to Gov't)		
LATCo Mobilisation - apply for capital dispensation 25/26 as coming from Trans Fund & 26/27 revenue budget	(955,000)	
Other capitalisation	TBC	(955,000)

This could also be used in other areas were appropriate and this maybe useful in setting up the New Town Development Corporation.

We need to seek Government approval for dispensations but the message from MHCLG particular for those councils most effected by FFR is this is a mechanism that should be considered. Further conversations with the Department will also focus on possible other measures that might be available, although it is unlikely this will be in the form of additional direct funding.

- **Balance to find** – Taking the £9.170m budget deficit and utilising the sums identified above totalling **-£7.448m**, this leaves a budget gap of £1.7m. Or £0.9m if savings are found for 2026/27 and are recurring savings in our base budget.

The Senior Leadership Team (SLT) are currently working on proposals to meet this level of saving/increased income. Initially £1m for 2026/27 budget but with a stretched target of £1.5m for each of the two years giving £3m in total. This then gives options and is an eye to the 2028/29 budget should the LGR timetable slip and this Council needs to prepare a further year's budget. This can be assessed as we move through the LGR process.

Under our previously adopted Financial Strategy we had the Financial Sustainability Model (FSM) which had key enablers to help drive savings/increase income. These principles are still useful to the current work in hand and can be found here starting on page 16 of the [Financial Strategy 2025 onwards](#).

- 10.4 Using reserves, using capitalisation and finding savings for only the deficit balance remaining (£0.9m) is a strategy which focusses on this Council only needing to set a budget for the next two years. There is a risk by significantly utilising reserves, which can only be used once, the Council is delaying the cliff edge in its budget gap that it may have to face itself should LGR be delayed. To emphasis again the creation of a new unitary authority would have assumed savings and a different FFR position.
- 10.5 If we focussed on just finding the minimum savings and utilising all readily available reserves this would leave us with a deficit of £5.3m to find in 2028/29, equivalent to 10.6% reduction in the gross budget. Whereas finding £1.5m each year for the next two years reduces the deficit to £3.2m (6.4% reduction in gross budget) and readily available reserves remaining at £1.3m.
- 10.6 The steer given by Budget Setting and Capital Allocations Panel (BSCAP) and an informal session with Cabinet was to endorse the above measures, but to plan also for a delayed reorganisation, essentially a 'N+1' scenari. Hence the stretched target being set as well. As stated, we can keep this under review as we move through the process. If additional saving/increase income are from areas that are palatable to Council this also gives more scope to invest in defined legacy projects.

11. Capital

- 11.1 The Council maintains a programme of capital expenditure designed to improve a wide range of community facilities and local infrastructure. The forward funding projections below only include rolling items and projects identified early by managers; **there will be proposals missing from this list** that will need to be considered for funding. There will be slippage in the programme that is not reflected below, the MTFP considers the approved programme and actual spend history against programme to give a more accurate picture on General Fund Revenue implications.
- 11.2 There will be a disparity between the Council's capital spending aspirations being greater than the amount of finance available. In producing these figures agreed principles have/will be applied:
- Capital works associated with the Housing Revenue Account are self-funded; these costs have been factored into in the HRA budgets. Any capital receipts generated from the HRA are used to finance HRA expenditure.
 - A capital bid process is in place and reviewed annually. This prioritisation is overseen by the BSCAP.
- 11.3 Like many councils we see significant slippage annually in our capital programme, a review is currently underway to ensure we present a realistic programme bearing in mind again the LGR timetable. Several projects in the current programme have been included for some time and not started for various reasons, we need to

consider realistic delivery over the next two years. The same approach needs to be taken with any new schemes to be recommended. This review is likely to reduce the programme and have a beneficial effect on our debt funding position in the General Fund.

MTFP Model – Capital Expenditure and Funding Position

	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000
GF - Net Capital Expenditure (after Grants, CIL, 106, EZ)	25,543*	1,289**	7,588	6,308	239
GF - General Capital Receipts	(1,000)	(200)	(200)	(200)	(200)
Net Internal/ External Borrowing	(24,543)	(1,089)	(7,388)	(6,108)	(39)

*Includes slippage from previous years

**SANG contribution expected offsetting expenditure profiled in other years

11.4 The Programme expenditure includes only those schemes already approved by Council and rolling items such as the provision of statutory disabled facility grants, capital maintenance, equipment replacement for street scene services etc. **Bids will come through the annual budget process giving a different picture to that given above and there will be choices to make to keep expenditure within resources available.** The above has been produced using the latest budget monitoring position.

11.5 The position on internal/external borrowing over the period requires net funding of £39.167m. This position has been factored into the revenue model taking a realistic view of past borrowing patterns and the current level debt assumed. From 2026/27 the costs of borrowing/lost external interest with additional borrowing of £4m a year for new scheme approval is assumed. A modest sum has been included for the capital receipts line; active asset management should be able to generate greater sums than has been assumed.

11.6 Key issues to consider for this Plan in terms of capital are:

- Only rolling items, or early request for items, have been included in the MTFP. No amount is included for future coast protection or flood prevention schemes. If any schemes do come forward, it is assumed they will attract Government funding if of high enough priority.
- Any scheme inclusion in the Programme over and above this core annual expenditure needs to be considered carefully for inclusion in future programmes on a case by case basis to determine if they meet corporate objectives and, if they can be self funded, evidenced in a business case or delivered in conjunction with other agencies/partners. Some schemes will come with no funding but may still be required to be funded due to their nature.

11.7 The Way Forward – Capital programme

- There is a clear necessity for the continuation of the member Panel to consider the allocating of capital resources against competing capital scheme bids.
- The programme needs to be populated with realistic expenditure estimates into the future.
- More active assessment of assets held in terms of capital receipts or transfers.

EXTERNAL INFLUENCES AND KEY ASSUMPTIONS WITHIN THE REVENUE MTFP MODEL

• Inflation

Inflation rates used are identified in Appendix A of the MTFP attached. Although the financial model is based upon what are believed to be a series of prudent assumptions, there is inevitably a risk that some or all factors applied could be inaccurate. The table below summarises the impact of any such inaccuracies that would have a detrimental effect upon the financial plan.

Financial impact of changes in inflation assumptions 2025/26.

Factor	MTFP Predicted Inflation Costs £000	Worse by 1% £'000	Worse by 2% £'000
Pay, N.I & Pension & other employee costs + other costs	778	498	996

• Investment Returns

The approach adopted, of budgeting for investment income remains prudent. Investment return is based on a marginal reduction in base rate for 2026/27 and a reduction in cash to invest has been factored in.

• Council Tax Income

The MTFP follows recent Government practice of allowing a £5 a year increase or 2.99% whichever is the greatest.

Financial impact of changes in council tax levels (2025/26).

Level of council Tax increase	Predicted council tax income £000	Loss of income in MTFP 2025/26 £'000
Council tax yield at £5 (2.99%) increase	(11,613)	Nil
Yield at 2.0%	(11,501)	112
Yield at 1.0%	(11,389)	224
Yield at 0.0%	(11,276)	337

This calculation shows a one year effect, this reduction would be lost each year going forward plus the opportunity to increase the level in future on a higher base.

• Government Funding

This is significant factor and the most difficult to predict. Although there are many factors to consider the overarching safeguard has promised is transitional arrangement over 3 years and LGFutures taking the year on year cash position being no worse than -5%. Although a risk this should the worst position.

