

Medium-Term Financial Plan (MTFP) 2023/24 to 2027/28

Updated December 2022

1. Background

1.1 The preparation of a Medium-Term Financial Plan (MTFP) provides the cornerstone on which the Council can build and deliver services in accordance with the aims and objectives outlined in the Corporate Plan 2018-2023, which are grouped under the three corporate ambitions:

- Stronger Communities
- Stronger Place; and
- Stronger Council.

1.2 Through 'horizon scanning' and anticipating necessary change at the earliest opportunity, resilience and the ability to react to and withstand 'major shocks' is achieved.

2. Introduction

2.1 This is the second iteration of the MTFP within the 2023/24 budget cycle and covers both the General Fund and the ring-fenced Housing Revenue Account (HRA). It is a forward-looking document which provides a tentative look at the Council's General Fund financial picture over the next five years (2023/24 through to 2027/28) and re-evaluates the position in the light of the development and completion of the initial draft 2023/24 budget.

3. General Fund MTFP

3.1 The October 2022 MTFP revealed a projected General Fund deficit of £4.126 million for 2023/24, which reflected a range of inflationary pressures and the loss of Government grant of £1.154 million compared to 2022/23. Estimated net expenditure was £19.402 million, compared to funding of just £15.276 million.

3.2 The General Fund budget preparation process for 2023/24 has now reached its first major milestone, with initial draft budget proposals prepared that address the original deficit identified in October 2022, taking account of subsequent developments. However, the Local Government Finance Settlement for 2023/24 has yet to be announced, which means prudent – best available – funding estimates, are still a feature of the 2023/24 draft budget and this updated MTFP; these estimates will be further refined in the light of the actual Settlement (anticipated announcement December 2022).

3.3 The October 2022 **General Fund** MTFP projections can be summarised as follows:

General Fund MTFP (@ October 2022)		
Financial Year	(Surplus)/Deficit	Comment
	£000's	
2023/24	4,126	Assumed drop in Government grants of £1.154 million
2024/25	1,399	New Waste Management contract from 1st December 2024
2025/26	1,439	
2026/27	996	
2027/28	654	

3.4 The updated MTFP (2023/24 through to 2027/28), reflecting an initial draft General Fund balanced budget for 2023/24, is illustrated in the table below.

General MTFP illustration (@ December 2022)						
Description	2023/24 (OCT 2022 MTFP)	2023/24 (INITIAL DRAFT BUDGET)	2024/25	2025/26	2026/27	2027/28
	£000's	£000's	£000's	£000's	£000's	£000's
NET EXPENDITURE						
Employees	26,807	22,578	23,219	23,671	24,124	24,587
Premises	3,256	3,605	3,785	3,861	3,938	4,017
Transport	359	171	179	183	186	190
Supplies & Services	10,825	8,802	9,166	9,346	9,533	9,724
Support Services	22	3	3	3	3	3
Contracted Services	7,179	9,445	10,214	11,367	11,481	11,596
Transfer Payments	22,210	22,210	22,210	21,100	20,045	19,042
Financing Costs	3,204	3,309	3,894	4,056	3,508	3,360
Specific Contingency	0	722	0	0	0	0
Gross Expenditure	73,862	70,845	72,671	73,586	72,819	72,518
Fees & Charges	(18,050)	(17,272)	(18,205)	(18,679)	(18,611)	(18,913)
Government Contributions	(24,261)	(24,137)	(24,130)	(23,012)	(21,950)	(20,941)
Miscellaneous Income (inc. Qualis)	(3,580)	(3,697)	(4,239)	(4,360)	(4,113)	(3,839)
Other Contributions	(3,090)	(4,099)	(4,037)	(4,037)	(4,082)	(4,037)
HRA Recharges	(5,479)	(4,981)	(5,130)	(5,232)	(5,337)	(5,444)
Net Expenditure	19,402	16,659	16,931	18,266	18,725	19,345
FUNDING						
Council Tax	(8,897)	(8,883)	(9,060)	(9,242)	(9,380)	(9,521)
Business Rates	(5,511)	(5,766)	(6,054)	(6,175)	(6,299)	(6,425)
Collection Fund Adjustments	0	(511)	0	0	0	0
Council Tax Sharing Agreement (CTSA)	(848)	(748)	(748)	(748)	(748)	(748)
New Homes Bonus	0	0	0	0	0	0
2022/23 Services Grant	0	0	0	0	0	0
L-T Services Grant	0	0	0	0	0	0
Other Grants	0	(250)	0	0	0	0
Credit Loss Adjustment	(20)	0	0	0	0	0
Contribution to/(from) Reserves	0	(501)	200	200	200	200
Total Funding	(15,276)	(16,659)	(15,663)	(15,965)	(16,227)	(16,494)
In-Year (Surplus)/Deficit	4,126	0	1,268	1,033	196	353
Cumulative (Surplus)/Deficit	4,126	0	1,268	2,301	2,498	2,851

3.5 As presented in **Appendix A**, the originally forecast £4.126 million General Fund deficit for 2023/24 identified in the October 2022 MTFP has now been eliminated. It is a highly complex exercise to draw detailed comparisons between the two iterations of the MTFP; there are multiple variables that ‘roll up’ cumulatively as the years progress. However, it is possible to highlight the key influences in Years 2 (2024/25) and 3 (2025/26) as follows:

- **2024/25 (£1.268 million deficit)** – this represents a marginal improvement compared to a projected deficit of £1.399 million in the October 2022 MTFP. There are a number of factors underlying the relatively stable projection though – some positive (especially the removal of £4.293 million in savings from the 2022/23 base budget, which eliminates substantial inflationary pressure that was present prior to the exercise) and some negative (including the need to update the anticipated additional costs of the new Waste Management contract to reflect increased inflationary pressures). It should be noted that this iteration of the MTFP also assumes a contribution of £0.2 million to reserves in anticipation of the General Fund Reserve falling below the adopted minimum contingency level of £4.0 million; and
- **2025/26 (£1.033 million deficit)** – again this represents a marginal improvement compared to a projected deficit of £1.439 million in October 2022, mainly due to the same factors as 2024/25. Most notably the cumulative impact of the inflation saving, which has an even larger effect by Year 3.

3.6 Despite the improved position presented in Paragraph 3.5, the broad profile of this iteration of the MTFP remains unaltered, with the peak annual budget pressures still expected to emerge in 2024/25 and 2025/26.

3.7 Embedded in the overall forecasts are a range of net spending and funding issues and assumptions. Key **net spending** highlights and assumptions include the following:

- **Inflation** – the published CPI rate for October 2022 was 11.1% (up from 10.1% in September 2022), although most commentators (including the Bank of England) anticipate that the current spike in inflation is nearing its peak. Therefore, a core inflation rate of 5.0% has now been assumed for the purposes of projecting the 2024/25 figures, reducing thereafter (2025/26 to 2027/28) to 2.0%, which is the Bank of England’s long-term target rate. A notable exception is Employee Costs; as reported in **Appendix A**, a pay award of 4.0% is assumed for 2023/24 and the provisional 3.0% increase assumed for 2024/25 in October 2022 has also been retained. From 2025/26 onwards, annual pay increases of 2.0% have been included.
- **Growth** – no discretionary budget growth items were assumed in the projections presented in October 2022. That assumption remains unchanged.
- **Financing Costs** – overall (net) Financing costs have remained similar to the position presented in October 2022. However, there have been some underlying swings in the first three years of this MTFP. Higher interest rates are driving additional costs on Interest Payable, although the impact is alleviated slightly by increases in anticipated income from Interest Receipts and a lower requirement for “Minimum Revenue Provision” (MRP) reflecting changes in the Capital Programme assumptions as well as a change in the calculation methodology. The peak in Financing costs is expected in 2025/26, with reductions thereafter assumed, based on a forecast reduction in interest rates.
- **Specific Contingency** – an assumed contingency of £721,900 in relation to the Qualis income stream is currently assumed for 2023/24 only. This is something that will be kept under continuous review by Finance officers.

- **Qualis Income** – on-lending to Qualis is expected to gather pace in 2023/24 and 2024/25, leading to higher income levels from loan margins for the next three financial years, peaking at £3.551 million in 2025/26
- **Fees and Charges** – income from Fees and Charges is assumed to track core inflation; an average increase of 5.0% is anticipated for 2024/25, reducing to 2.0% thereafter. No increases in Car Parking charges are assumed; and
- **HRA Recharges** – at this stage, recharges to the HRA are assumed to be relatively stable from 2024/25 onwards with just inflationary increases only applied. However, Transformation work on General Fund services can be expected to yield savings that can be shared with the HRA; this will be reflected in future iterations of this MTFP.

3.8 Key **funding** highlights and assumptions include the following:

- **Council Tax** – as reported in **Appendix A**, there is a provisional assumption that the Council will increase the Council Tax by £5 for a Band D property for 2023/24. Thereafter, no Council Tax increases are assumed, with slightly higher growth in the tax base (of 2.0%) assumed in 2024/25 and 2025/26 as a gradual recovery from the current economic crisis is presumed (settling down to 1.5% from 2026/27 onwards). Members of course have the option to alter these assumptions.
- **Business Rates** – the estimated amount that the Council can expect to receive from the Business Rates Retention (BRR) scheme at this stage has been based on relatively sophisticated estimates for 2023/24 only. Thereafter, funding from this source is currently assumed to track core inflation (5.0% in 2024/25, followed by 2.0% from 2025/26 onwards). It is anticipated that more sophisticated estimates – based on updated technical guidance – will be possible in January 2023 in time for the next iteration of this MTFP in February 2023.
- **Collection Fund Adjustments** – assumed Collection Fund adjustments are extremely difficult to forecast beyond the immediately forthcoming financial year. On that basis a prudent ‘neutral’ assumption is included in this iteration of the MTFP from 2024/25 onwards. However, as with Business Rates, this is an area that officers will be examining in detail during January 2023.
- **Council Tax Sharing Agreement (CTSA)** – a slightly reduced annual (flat) assumption of £748,000 is included in income from the CTSA. This is a figure that is currently being exceeded in 2022/23, but future expectations are less optimistic as the current economic crisis progresses.
- **Grants** – as explained in **Appendix A**, a cautious £250,000 has been assumed from Government grants in 2023/24 based on some optimism that the Government’s Departmental Expenditure Limits (DEL) will be protected at the levels set in the Spending Review 2021. At this stage, it is assumed that such funding will not be available in 2024/25 and beyond.
- **Credit Loss Adjustments** – it is a technical accounting requirement for the Council to provide for estimated credit losses on the £6.0 million Working Capital Loan to Qualis. For each year that Qualis maintains its loan payments (and reduces the balance repayable), the size of that provision can be reduced, thus releasing revenue funds from the General Fund Reserve. Following a recent further advance to Qualis as part of the ‘revolving facility’ loan agreement, no credits are assumed to the General Fund to support General Fund expenditure for the duration of this MTFP; and

- **Use of Reserves** – as reported elsewhere on this agenda, the Council's General Fund Reserve is now expected to fall below its recommended minimum contingency level of £4.0 million by 31st March 2023. The size of the shortfall is currently forecast to be in the region of £1.0 million. This iteration of the MTFP therefore assumes the repayment of £1.021 million to the General Fund Reserve over the five-year period.

4. Housing Revenue Account (HRA) MTFP

4.1 The October 2022 MTFP revealed a projected HRA surplus of £0.682 million for 2023/24, followed by a series of smaller deficits (totalling £0.767 million). However, this was achieved through substantially reining back HRA Contributions to Capital in order to maintain a minimum HRA balance of £2.0 million as determined in the HRA Business Plan.

4.2 The October 2022 MTFP projections for the HRA can be summarised as follows:

Housing Revenue Account MTFP (@ October 2022)		
Financial Year	(Surplus)/Deficit	Comment
	£000's	
2023/24	(682)	
2024/25	216	
2025/26	296	53 Week Rent Year Assumed £900,000 saving from Qualis re Housing Repairs
2026/27	129	
2027/28	126	

4.3 The updated MTFP (2023/24 through to 2027/28), reflecting an initial draft HRA budget for 2023/24, is illustrated in the table below.

HRA MTFP illustration (@ December 2022)						
Description	2023/24 (OCT 2022 MTFP)	2023/24 (INITIAL DRAFT BUDGET)	2024/25	2025/26	2026/27	2027/28
	£000's	£000's	£000's	£000's	£000's	£000's
Employees	4,878	5,013	5,130	5,217	5,322	5,428
Premises	6,224	6,113	6,548	6,700	6,867	7,005
Transport	78	78	82	84	85	87
Supplies & Services	1,347	1,402	1,257	1,486	1,189	1,213
Contracted Services	7,360	7,198	7,649	6,916	7,064	7,205
Support Services (GF Recharges)	5,479	4,981	5,130	5,233	5,337	5,444
Debt Management Expenses	65	65	69	70	71	73
Bad Debt Provision	97	99	106	107	109	113
Depreciation	9,137	9,137	9,320	9,506	9,696	9,890
Total Expenditure	34,666	34,086	35,291	35,319	35,740	36,458
Rental Income – Dwellings	(36,764)	(37,408)	(40,177)	(40,604)	(41,606)	(42,991)
Rental Income – Non- Dwellings	(936)	(936)	(983)	(1,002)	(1,022)	(1,043)
Fees & Charges (charged for services)	(2,983)	(2,793)	(3,004)	(3,075)	(3,147)	(3,283)
Other Contributions (shared amenities)	(383)	(383)	(393)	(401)	(409)	(417)
Total Income	(41,066)	(41,520)	(44,557)	(45,082)	(46,184)	(47,734)
Net Cost of Services	(6,400)	(7,434)	(9,266)	(9,763)	(10,444)	(11,276)
Interest Received	(8)	(9)	(9)	(7)	(6)	(5)
Financing Costs	5,686	5,610	6,686	7,748	8,196	8,649
Net Operating Income	(722)	(1,833)	(2,588)	(2,022)	(2,253)	(2,632)
<i>Appropriations:</i>						
HRA Contributions to Capital	40	1,462	2,569	2,304	2,246	2,690
Contributions to/(from) Reserves	0	0	0	0	0	0
Total Appropriations	40	1,462	2,569	2,304	2,246	2,690
(Surplus)/Deficit	(682)	(371)	(20)	282	(8)	58

- 4.4 As presented in **Appendix B**, the originally forecast £0.682 million HRA surplus for 2023/24 identified in the October 2022 MTFP has now been reduced to £371,000 following the completion of the – more detailed – initial draft Budget preparation exercise.
- 4.5 As reported in the October 2022 MTFP, there were concerns regarding the financial viability of the HRA Business Plan from Year 11 (2033/34) onwards. In the light of that, the underlying “Fortress” has been ‘revisited’ and updated. Consequently, a number of Housing Developments have been re-phased, which has combined with an assumed additional 2.0% Housing Rent increase for 2023/24 (up from 5.0% to 7.0%); this has restored the long-term viability of the Plan. Consequently, the updated MTFP presented in the table above (Paragraph 4.3) now shows a stable and sustainable position, with combined surpluses of £399,000 in Years 1, 2 and 4, being broadly offset by combined deficits of £340,000 in Years 3 and 5.
- 4.6 It should be noted that officers are still refining the HRA Business Plan using the “Fortress” model and the completion of the Stock Condition Survey remains a major priority as, once complete, it will further enhance the accuracy of the outputs from the model and will also enable the Plan to be extended from 30 to 40 years; this will help inform future iterations of the HRA MTFP.