Report to Stronger Council Select Committee

Date of meeting: 16th November 2021

SCRUTINY

Epping Forest District Council

Subject: Updated Medium-Term Financial Plan 2022/23 to 2026/27

Portfolio: Finance, Qualis Client & Economic Development - Cllr. John Philip

Officer contact for further information: Chris Hartgrove 01992 564000 (Ext. 2532)

Democratic Services Officer: Adrian Hendry 01992 564246

Recommendations/Decisions Required:

To consider the Updated Medium-Term Financial Plan 2022/23 to 2026/27 as presented to Cabinet on 11th October 2021 *(Appendix A)*, and to make such comments and/or recommendations as the Committee feels appropriate so that Cabinet can consider these on 6th December 2021, when they meet to consider draft budget options for 2022/23.

Executive Summary:

Cabinet considered the Updated Medium-Term Financial Plan for 2022/23 to 2026/27 on 11th October 2021. At that meeting the contents of the report were considered and discussed, including the implications for both the General Fund and Housing Revenue Account.

Cabinet also agreed that the report should go forward for scrutiny by the Stronger Council Select Committee in accordance with the Financial Planning Framework (2022/23 to 2026/27) adopted on 13th September 2021.

This is the first iteration of the MTFP within the 2022/23 budget cycle. It is a forward-looking document which provides a tentative look at the Council's financial picture over the next five years (2022/23 through to 2025/26) and sets the scene by providing a framework for developing both the General Fund and Housing Revenue Account (HRA) budgets for 2022/23.

The General Fund forecast within the MTFP reveals a projected deficit of £1.504 million for 2022/23. This primarily reflects the impact of losing Government Support for Covid-19 (£1.263 million) and the contribution from the General Reserve (£1.350 million) compared to 2021/22. Estimated net expenditure in 2022/23 is £16.022 million, compared to available funding of £14.518 million.

Looking further ahead, a further budget gap is expected to open-up on the General Fund again from 2023/24, with a peak annual budget pressure of £1.139 million occurring in 2025/26.

The HRA forecast within the MTFP reveals a projected deficit of £2.755 million for 2022/23 (broadly offset by an initial surplus of £2.651 million in 2021/22). The initial volatility between 2021/22 and 2022/23 is primarily due to a change in financing assumptions as part of the initial rollout of the new HRA Business Plan model compared to current assumptions.

A very stable position is projected for 2023/24 onwards, with a surplus of £1.918 million anticipated in 2016/17.

The next stage in the process (currently in progress) will see the assumptions and projections further refined and draft budget options for 2022/23 (such as additional income generation or capturing organisational efficiencies) for closing the budget deficit, for consideration by Cabinet on 6th December 2021, alongside feedback from this Committee.

Reason for Decision:

This report facilitates the scrutiny of the Council's financial position for 2022/23 to 2026/27 as it prepares draft budget options for 2022/23.

The Council faces a significant challenge in achieving a balanced budget for 2022/23 due to a projected General Fund budget gap of £1.5 million.

The comments made at this Committee, where relevant, will be reported to Cabinet for their consideration at their meeting on 6th December 2021.

Legal and Governance Implications:

The Council has a legal duty under the Local Government Finance Act 1992 to set a balanced budget. This report highlights a potential budget deficit on the General Fund that needs to be eliminated prior to setting the 2022/23 budget in February 2022.

Safer, Cleaner, Greener Implications:

There are no SGS implications.

Consultation Undertaken:

The development of the 2022/23 budget is informed by the democratic scrutiny processes.

Background Papers:

None.

Risk Management

The consideration of risk forms an integral part of the development of budget options. In particular, the MTFP is based on a series of estimates and assumptions that are informed by varying forms of intelligence (some certain, some uncertain); that process, including any residual risk in the decision-making process will be clearly indicated.

APPENDIX A

Report to the Cabinet

Report reference: ***C-020-2021/22***
Date of meeting: ***11th October 2021***

Epping Forest District Council

Portfolio: **Finance & Economic Development**

Subject: **Updated Medium-Term Financial Plan 2022/23 to 2026/27**

Responsible Officer: **Andrew Small** **(01992 564278)**

Democratic Services: **Adrian Hendry** **(01992 564246)**

Recommendations/Decisions Required:

1) To note the contents of the report, including:

- **The General Fund element of the updated Medium-Term Financial Plan (2022/23 to 2026/27) (*Annex 1*); and**
- **The Housing Revenue Account element of the updated Medium-Term Financial Plan (2022/23 to 2026/27) (*Annex 2*), including the anticipated impact on the 2021/22 budget outturn; and**

2) Discuss and agree any actions required, including the assumptions contained in the MTFP and the potential options for addressing the underlying budget deficit in order to set a balanced budget for 2022/23.

Executive Summary:

The Cabinet approved an updated Financial Planning Framework (2022/23 to 2026/27) at its meeting on 13th September 2021 and committed to receiving and considering and updated Medium-Term Financial Plan (MTFP) for 2022/23 to 2026/27.

The preparation of an MTFP provides the cornerstone on which the Council can build and deliver services in accordance with its aims and objectives. It also provides an early warning sign of potential budget pressures that lie ahead.

This is the first iteration of the MTFP within the 2022/23 budget cycle. It is a forward-looking document which provides a tentative look at the Council's financial picture over the next five years (2022/23 through to 2025/26) and sets the scene by providing a framework for developing both the General Fund and Housing Revenue Account (HRA) budgets for 2022/23.

The General Fund element of the MTFP can be found at ***Annex 1***. It reveals a projected deficit of £1.504 million for 2022/23. This primarily reflects the impact of losing Government Support for Covid-19 (£1.263 million) and the contribution from the General Reserve (£1.350) compared to 2021/22. Estimated net expenditure in 2022/23 is £16.022 million, compared to available funding of £14.518 million.
Looking further ahead, a further budget gap is expected to open-up again from 2023/24, with a peak annual budget pressure of £1.139 million occurring in 2025/26, following the letting of the new Waste Management contract. The projections are summarised in the table below.

General Fund MTFP (@ October 2021)		
Financial Year	**(Surplus)/Deficit £000's**	**Comment**
2022/23	1,504	Assumed no Government support for Covid-19 (£1.263 million in 2021/22) + no Use of Reserves (£1.350 million in 2021/22)
2023/24	336	
2024/25	579	New Waste Management contract assumed with effect from 1st December 2024
2025/26	1,139	
2026/27	74	

The HRA element of the MTFP can be found at ***Annex 2***. It reveals a projected deficit of £2.755 million for 2022/23 (broadly offset by an initial surplus of £2.651 million in 2021/22). The initial volatility between 2021/22 and 2022/23 is primarily due to a change in financing assumptions as part of the initial rollout of the new HRA Business Plan model compared to current assumptions.

A very stable position is projected for 2023/24 onwards, with a surplus of £1.918 million anticipated in 2016/17. The table below provides a summary.

Housing Revenue Account MTFP (@ October 2021)		
Financial Year	**(Surplus)/Deficit £000's**	**Comment**
2022/23	2,755	Deficit substantially offset by assumed surplus of £2.651 million in 2021/22
2023/24	2	
2024/25	0	
2025/26	2	53 Week Rent Year Assumed £900,000 saving from Qualis re Housing Repairs
2026/27	(1,918)	

The next stage in the process will see the assumptions and projections in both the General Fund and Housing Revenue Account further refined in accordance with the direction provided by Cabinet and emerging intelligence. Officers will begin to develop draft budget options for 2022/23, including options (such as additional income generation or capturing organisational efficiencies) for closing the budget deficit, for consideration by Cabinet in December 2021.

Reasons for Proposed Decision:

To provide an updated financial position for the Council based on latest available information, allowing Cabinet to consider the implications and potential options available, and provide strategic direction to senior officers in preparing a (balanced) draft budget for 2022/23.

Legal and Governance Implications:

The Council has a legal duty under the Local Government Finance Act 1992 to set a balanced budget. This report highlights a potential budget deficit on the General Fund that needs to be eliminated prior to setting the 2022/23 budget in February 2022.

Safer, Cleaner and Greener Implications:

There are no direct SCG implications contained within the report, although the implications will be considered in the detailed development of budget proposals.

Consultation Undertaken:

None. The proposals in the report require further development. Consultation at a later stage is an in-built feature of the proposed Financial Planning approach and timetable.

Background Papers:

None.

Risk Management:

The consideration of risk will form an integral part of the development of the proposals in the report. In particular, the MTFP is based on a series of estimates and assumptions that are informed by varying forms of intelligence (some certain, some uncertain); that process, including any residual risk in the decision-making process will be clearly indicated.

ANNEX 1

Updated Medium-Term Financial Plan 2022/23 to 2026/27

GENERAL FUND

October 2021

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 first iteration of the MTFP in the 2022/23 budget cycle. It is a forward-looking document which provides a tentative look at the Council's General Fund financial picture over the next five years (2022/23 to 2026/27) and re-evaluates the position in the light of developments since the last MTFP (2021/22 to 2025/26) was adopted by the Council in February 2021.

2.2 This part of the MTFP focuses on the Council's General Fund. An emerging HRA Business Plan is being developed and this underpins an updated MTFP for the HRA, which is presented in Appendix B.

2.3 The February 2021 MTFP revealed a projected deficit of £1.094 million in 2022/23; this assumed the use of £0.5 million from the Council's general contingency reserves. The full projections can be summarised as follows:

Financial Year	(Surplus)/Deficit £'s	Comment
2021/22	0	Assumed £1.263 million Government support for Covid-19 + £1.350 million Use of Reserves
2022/23	1,093,715	Assumed £0.5 million Use of Reserves
2023/24	661,267	
2024/25	319,525	
2025/26	351,700	

2.4 The MTFP is deliberately concise, focussing on the most significant financial issues faced by Epping Forest District Council over the medium-term. There are currently four major factors to note:

- ***Covid-19 Pandemic*** – the measures taken by the UK and most major countries worldwide in response to the global pandemic declared by the World Health Organisation (WHO) in March 2020 had an immediate and profound impact on economies across the world. At a national and local level, the impact on UK local government and Epping Forest District Council had a massive impact on both operations and finances, with major losses experienced on a number of income streams ranging from core funding sources such as Council Tax and Business Rates through to fees and charges from Leisure Centres, Car Parking, Building Control, Planning and Licensing. The 2020/21 financial year bore the brunt of the financial pressure, with the position eventually being alleviated – to a large extent – by emergency financial support from the Government.

  Although the immediate financial pressure for 2020/21 – thanks to Government support – was eventually alleviated, a range of the problem areas have persisted into 2021/22, including reduced usage of Leisure Centres and Car Parks. Once again, the Government has been supportive, with estimated financial assistance in the region of £1.2 million being made available to this Council in recognition of the extended (third) lockdown and subsequent social distancing measures.

  However, following the lifting of most restrictions on 19th July 2021, the Government is now winding down its support for the pandemic to local government. This presents a significant challenge to the Council. Whilst there is some cause for optimism, with footfall in Leisure Centres increasing at a slightly faster rate than envisaged when the 2021/22 budget was set, there are some income streams that might never recover to pre-pandemic levels. For example, a seemingly permanent widespread shift towards hybrid or home working looks likely to result in reduced demand for Council Car Parks from commuters.

  There is also a long-term uncertainty regarding Business Rates income. For example, the Council continues to enjoy protection in the form of “Section 31” grants from Government to compensate for temporary reliefs. It remains to be seen what the impact on Business Rates collection will be when ‘normal’ (less generous) reliefs return.

- ***Local Government Finance Settlement*** – for the past six years, local authority funding has been subject to a national settlement originally announced in 2016; 2019/20 was due to be the final year of a four-year settlement. However – due to Brexit – the key elements of the four-year settlement were rolled forward into 2020/21. This was further rolled forward into 2021/22 due to the pandemic.

  The Chancellor has recently announced that he will provide details of a three-year spending review on 27th October 2021. His will cover the financial years 2022/23, 2023/24 and 2024/25. Huge uncertainty remains as to what the outcome could be for local government and what form (and when) a range of other reforms (e.g. to Business Rates) will take. The uncertainty also extends to established funding streams such as the New Homes Bonus, which the Council has benefited from for several years.

  Given the usual pattern whereby the Local Government Finance Settlement is announced just before Christmas, definitive figures for 2022/23 may not be available until late December 2021.

- ***Economic Uncertainty (including Inflation)*** – at the time of preparing this report, the UK is facing substantial economic uncertainty following Brexit and the Pandemic. This includes disruption to supply chains which is leading to shortages in a wide range of raw materials, goods and services (e.g. this has led to fuel shortages following a sudden increase demand, further adding to the problem). Most directly relevant to this MTFP perhaps is inflation. The August 2021 CPI rate was 3.2%, its highest point for some time, and well above the Government's long-term inflation target of 2.0%. The Bank of England (in its August 2021 Monetary Policy Report) has indicated its expectation that CPI will rise further to 4.0% in late 2022, eventually settling back down at 2.0% in late 2023. However, there is some speculation in the media that inflation could spiral to levels unseen in the UK since the 1970s. Overall therefore, price inflation is a significant concern.

- ***Balance Sheet*** – as reported to Cabinet on 13th September 2021, due to a range of factors, including recent accounting adjustments and reserve movements, the balance of £4.017 million (subject to audit) on the Council's General Fund Reserve as at 31st March 2021 is now very close to its agreed minimum contingency balance of £4.0 million.

  This consequently heightens pressure on the 2021/22 budget which includes a planned contribution of £1.350 million from the same reserve, as well the MTFP for 2022/23 and beyond.

3. Financial Projections

3.1 Current Spending Levels

3.1.1 The starting point for developing the MTFP is the current level of spending. The 2021/22 General Fund base budget was adopted approved by the Council on 25th February 2021 and can be summarised as follows:

Description	2021/22 Budget £'s
Employees	23,910,290
Premises	2,959,140
Transport	361,520
Supplies & Services	8,814,200
Support Services	51,250
Contracted Services	6,384,160
Transfer Payments (Housing Benefits)	25,405,300
Financing Costs	2,215,000
Gross Expenditure	**70,100,860**
Fees & Charges	(15,650,480)
Government Contributions (including Housing Benefit Subsidy)	(27,208,730)
Miscellaneous Income (including Qualis)	(3,598,130)
Other Contributions	(2,964,800)
HRA Recharges	(3,988,330)
Net Expenditure	**16,690,390**

3.1.2 It should be noted that, as reported to Cabinet in February 2021, late service realignments meant that the General Fund service structure presented within the initial 2021/22 Budget required further refinement. The required changes, which have been actioned and were presented in the 2021/22 Quarter 1 Budget Monitoring Report (Stronger Council Select Committee 14th September 2021) were relatively slight and have no impact on Net Expenditure or Funding.

3.1.3 Net expenditure is funded as follows:

Description	2021/22 Budget
	£'s
Council Tax	(8,235,690)
Business Rates	(5,162,020)
Collection Fund Adjustments	336,410
Council Tax Sharing Agreement (CTSA)	(340,000)
Non-Specific Grants:	
New Homes Bonus	(477,480)
Lower-Tier Services Grant	(185,880)
Other	(12,410)
Government Support for Covid-19	(1,263,320)
Contributions to/ (use of) Reserves	(1,350,000)
Total Funding	**16,690,390**

3.2 Increased/(Reduced) Budget Demand

3.2.1 Based on an initial high-level review of the current base budget, and anticipated budget demand in 2022/23 and beyond, several areas of changed budgetary demand have been identified and are presented in the table below.

Medium-Term Increased/(Reduced) Budget Demand (@ October 2021)					
Description	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£'s	**£'s**	**£'s**	**£'s**	**£'s**
Employees					
Unfunded Planning Posts (2+)	**71,300**	0	0	0	0
Executive Assistant (COO) post	**27,900**	0	0	0	0
Insurance Specialist	**50,000**	0	0	0	0
Building Control Staff Mileage	**13,000**	0	0	0	0
Pens Deficit Reduction Payments	**21,936**	0	0	0	0
Added Yrs/Unf'd Pens Payments	**240,000**	(20,000)	(20,000)	(20,000)	(20,000)
Reg Services (Sal over-provision)	**(6,500)**	0	0	0	0
Supplies & Services					
Insurance Premium	**161,300**	0	0	0	0
Storage & Archiving	**14,200**	0	0	0	0
Firmstep Forms & CRM	**17,578**	0	0	0	0
FIMS Replacement	**3,840**	0	0	0	0
Gemalto Safenet	**19,000**	0	0	0	0
Mobile Phones	**(80,000)**	0	0	0	0
DP Project Support	**(45,000)**	0	0	0	0
Local Plan Legal Fees	**(50,500)**	0	0	0	0
Contracted Services					
Waste Contract (Variable Costs)	**200,000**	0	0	0	0
New Waste Contract (Resources)	**0**	0	366,667	733,333	0
New Waste Contract (Recycling)	**0**	0	66,667	133,333	0
Transfer Payments					
Reduced HB Payments	**(3,327,453)**	(2,661,962)	(2,129,570)	(1,703,656)	(1,362,925)
Fees & Charges					
Car Park Season Tickets	**160,000**	0	0	0	0
Civic Offices Lease	**110,570**	(86,610)	(72,175)	0	0
Leisure Contract Income	**(971,430)**	0	0	0	0
Car Parking (Pay & Display)	**(35,696)**	107,852	0	0	0
Planning Applications Income	**(106,000)**	0	0	0	0
Government Contributions					
Reduced HB Claim	**3,327,453**	2,661,962	2,129,570	1,703,656	1,362,925
Reduced HB Admin Subsidy	**12,041**	9,633	7,706	6,166	4,932
HRA Recharges					
Increased Recharges	**(500,000)**	0	0	0	0
Net Increased/(Reduced) Budget Demand	**(672,461)**	**10,875**	**348,865**	**852,832**	**(15,068)**

3.2.2 The table shows a net decrease in budget demand of £672,461 in 2022/23, but significant increases are anticipated in 2024/25 (£348,865) and 2025/26 (£852,832) especially. There are two major factors to note:

- <u>*Leisure Contract Income (2022/23 - £971,430 positive)*</u> – Leisure Centre usage has increased significantly in recent weeks and now exceeds the expectations included in the MTFP adopted in February 2021. The full Management Fee of £1.471 million is now expected to be restored in 2022/23; and

- *Waste Management Contract (2024/25 & 2025/26)* – initial estimates as to the additional cost of the new Waste Management contract in 2024/25 suggest an additional cost pressure of £1.3 million (although, at the time of preparing this report, officers are exploring the potential for savings to at least partially offset these costs).

3.3 Inflation

3.3.1 Inflationary pressures have been reviewed based on latest available intelligence and are presented in the table below.

Medium-Term Inflation Assumptions (@ October 2021)					
Description	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£'s	**£'s**	**£'s**	**£'s**	**£'s**
Employees	**486,559**	744,435	766,168	788,553	811,609
Premises	**147,957**	62,142	63,385	64,652	65,945
Transport	**7,230**	7,375	7,522	7,673	7,826
Supplies & Services	**177,092**	182,180	185,238	188,963	192,762
Support Services	**1,025**	1,046	1,067	1,088	1,110
Contracted Services	**82,302**	66,665	74,165	83,573	84,409
Fees & Charges	**(329,861)**	(336,033)	(344,197)	(351,081)	(358,103)
HRA Recharges	**(89,767)**	(119,031)	(122,125)	(125,301)	(128,559)
Net Increased/(Reduced) Budget Demand	**482,538**	**608,778**	**631,221**	**658,119**	**677,000**

3.3.2 It should be emphasised that – at the time of preparing this report – there are substantial uncertainties as to the future direction of inflation. Initial assumptions will be refined in the coming weeks as further intelligence emerges. The most recently available (August 2021) published CPI was 3.2%.

3.3.3 In most cases, an inflation rate of 2.0% (the Bank of England's long-term target rate) has initially been assumed. There are two significant exceptions:

- *Employee Costs* – whilst a 2.0% pay increase has been assumed for 2022/23, it is recognised that there is likely to be a longer-term upward pressure on pay awards, so annual increases of 3.0% have been assumed for 2023/24 onwards; and

- *Premises Costs* – at the time of preparing this report, energy prices are increasing significantly. It has therefore been assumed that Premises Costs will rise by 5.0% in 2022/23, settling back down to 2.0% in 2023/24. However, the situation is currently extremely volatile so assumptions will be further reviewed in preparing the draft budget.

3.3.4 Given the current financial challenge that the Council faces, it has been assumed that Fees and Charges will rise by an *average* of 2.0%. However, the Council does not have the discretion to unilaterally raise statutory fees and charges, and there is currently no assumption that Car Parking charges will increase. Consequently, some fees and charges will have to rise in excess of 2.0% for the average to be achieved.

3.3.5 It should be noted that the Government's recent decision to increase Employers' National Insurance contributions by 1.25% (1.25p in the pound) have been assumed as cost neutral in this iteration of the MTFP. Although the Council's annual costs are expected to increase by an amount in the region of £175,000, the Government has expressed an intention to protect public sector employers from this additional cost. Further details as to if and how this will happen are awaited.

3.4 Budget Growth

3.4.1 No discretionary Budget Growth items have been assumed in these projections. Given the Council's current financial position, it is assumed that any potential growth items – which are in line with Council priorities – will be prioritised and funded from budget reallocations/savings. The potential re-prioritisation of financial resources is matter for Members to consider.

3.5 Revenue Consequences of the Capital Programme

3.5.1 The assumptions on Qualis loans have been updated, and now encompass the rollout of the recently agreed additional £35.0 million loan facility. This is contributing to an increase of £996,100 in Finance Costs (reflecting the cost of PWLB loans), which is outweighed by an increase of £1,500,000 in Miscellaneous Income (loan repayments from Qualis to the Council). There is an overall Net Reduction in budget demand of £478,900. Further work on refining the detailed assumptions on Capital will be undertaken prior to preparing the draft budget.

3.6 Savings

3.6.1 There are currently no Savings assumed within the projections. The views of Members are sought on the prioritisation of potential cashable savings in the context of the Budget Deficit and Council priorities, whether from spending reductions or increased income.

3.7 Funding

3.7.1 The Council's core funding streams have been reviewed based on the latest available intelligence. The relevant budget movements are summarised in the table below.

Medium-Term Funding Assumptions (@ October 2021)

Description	2022/23	2023/24	2024/25	2025/26	2026/27
	£'s	£'s	£'s	£'s	£'s
Council Tax	**(404,250)**	(540,290)	(465,070)	(462,860)	(470,520)
Business Rates	**199,560**	(99,250)	(101,230)	(103,260)	(105,320)
Collection Fund Adjustments	**(186,410)**	(150,000)	0	0	0
Council Tax Sharing Agreement	**(210,000)**	(100,000)	(13,000)	(13,260)	(13,530)
New Homes Bonus	**25,760**	451,720	0	0	0
Lower-Tier Services Grant	**185,880**	0	0	0	0
Credit Loss Adjustments	**(50,970)**	0	0	31,860	19,110
Government Support for Covid-19	**1,263,320**	0	0	0	0
Reserve Contributions	**1,350,000**	0	0	0	0
Net Increased/(Reduced) Budget Demand	**2,172,890**	**(437,820)**	**(579,300)**	**(547,520)**	**(570,260)**

3.7.2 The key budget assumptions captured in the table are as follows:

- *Council Tax* – there is a provisional assumption that the Council will increase the Council Tax by £5 for a Band D property for the duration of the MTFP. This is currently the maximum amount allowable. Such an increase would generate an estimated funding increase of around £400,000 in 2022/23 (allowing for some recovery in the tax base following the pandemic)

- *Business Rates* – initial projections of the estimated amount that the Council can expect to receive from the Business Rates Retention (BRR) scheme in 2022/23 have been completed. This results in an initial reduction of £199,560, although there is currently significant uncertainty as to how the Government will treat the Business Rates Multiplier for 2022/23; this usually increases by September CPI, but the default position is something that can be (and has been) disregarded in the past. A cautious 2.0% increase has been assumed in these projections compared to a CPI rate of 3.2% in August 2021

- *Collection Fund Adjustments* – the complexities created by the pandemic make an accurate estimate of the Collection Fund adjustment very difficult at this stage. However, as at 31st March 2021, the Council held an Earmarked Reserve of £6.650 million funded by surplus Section 31 money paid by Government as compensation for extended Business Rates Reliefs granted in response to the pandemic; this represents 40.1% of the cumulative deficit on the Business Rates share of the Collection Fund at the same point in time. Consequently, a 'zero adjustment' is assumed in 2022/23 for Business Rates.

  The cumulative deficit on the Council Tax share of the Collection Fund is not mitigated by an Earmarked Reserve. At this stage therefore a negative Collection Fund adjustment of £150,000 (13.7% of cumulative deficit) has been assumed for Council Tax.

- *Council Tax Sharing Agreement (CTSA)* – the prospects for CTSA have improved since the last iteration of the MTFP in February 2021, with Quarter 1 projections for 2021/22 out-performing a budget expectation of £340,000. The improvement is expected to continue, and assumed funding from this source in 2022/23 has been assumed to rise to £550,000 (and up to circa £690,000 by 2026/27)

- *Grants* – following the demise of Revenue Support Grant (RSG) funding from the Government, the most significant remaining grant within the annual Settlement is the New Homes Bonus (NHB). The Government consulted on a replacement for the NHB earlier this year. Any new housing incentive scheme will reflect a more targeted approach that rewards local government where they are 'ambitious' in delivering housing growth. At this stage, there is no further detail on what form the new scheme will take. For now, legacy payments of £451,720 are assumed in 2022/23 only, with nothing beyond. Lower Tier Services Grant of £185,880 has been received in 2021/22; this is assumed to be a one-off payment, so has been removed from future funding assumptions

- *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, the size of that provision can be reduced, thus releasing revenue funds from the General Fund Reserve (£172,020 from 2022/23 to 2025/26)

- *Government Support for Covid-19* – assumed Government funding of £1.263 million for 2021/22 for the pandemic, is expected to be discontinued. No Government support is assumed in 2022/23 and beyond; and

- *Contribution to (from) Reserves* – the 2021/22 budget is supported by a budgeted contribution of £1.350 million from the General Fund Reserve based on intelligence at the time of setting the budget in February 2021. The MTFP produced at the time also included the assumed use of £0.50 million in 2022/23. As reported to full Council on 29th July 2021, the Council's General Fund Reserve is now very close to its adopted minimum contingency balance of £4.0 million. Consequently, there are no longer any surplus funds available to support the 2022/23 budget.

  It should be noted that, as reported in the Quarter 1 2021/22 Budget Monitoring Report (Stronger Council Select Committee 14th September 2021), officers are working on achieving a "managed surplus" on the 2021/22 in order to eliminate (or significantly reduce) the originally planned drawdown on the General Fund Reserve. If this cannot be achieved, or for any other reason the balance falls below £4.0 million, then there is a potential requirement to replenish the Reserve; this would add to the deficits in this MTFP.

3.8 Summary Position

3.8.1 After taking account of the projections made in Sections 3.2 to 3.7 above, the projected medium-term revenue position for the General Fund (2022/23 to 2026/27), is summarised in the table below.

Description	2021/22 BUDGET/ BASELINE	2022/23 BUDGET STRATEGY	2023/24	2024/25	2025/26	2026/27
	£000's	£000's	£000's	£000's	£000's	£000's
NET EXPENDITURE						
Employees	23,910	24,814	25,539	26,285	27,054	27,845
Premises	2,959	3,107	3,169	3,233	3,297	3,363
Transport	362	369	376	384	391	399
Supplies & Services	8,814	9,057	9,262	9,448	9,638	9,832
Support Services	51	52	53	54	55	57
Contracted Services	6,384	6,666	6,983	7,491	8,441	8,525
Transfer Payments	25,405	22,078	19,416	17,286	15,583	14,220
Financing Costs	2,215	3,211	4,332	5,249	5,423	5,404
Gross Expenditure	**70,101**	**69,355**	**69,130**	**69,430**	**69,883**	**69,645**
Fees & Charges	(15,650)	(16,823)	(17,138)	(17,554)	(17,905)	(18,263)
Government Contributions	(27,209)	(23,869)	(21,198)	(19,060)	(17,351)	(15,983)
Miscellaneous Income (including Qualis)	(3,598)	(5,098)	(6,338)	(7,078)	(7,078)	(7,078)
Other Contributions	(2,965)	(2,965)	(2,965)	(2,965)	(2,965)	(2,965)
HRA Recharges	(3,988)	(4,578)	(4,697)	(4,819)	(4,945)	(5,073)
Net Expenditure	**16,690**	**16,022**	**16,795**	**17,953**	**19,639**	**20,283**
FUNDING						
Council Tax	(8,236)	(8,640)	(9,180)	(9,645)	(10,108)	(10,579)
Business Rates	(5,162)	(4,962)	(5,062)	(5,163)	(5,266)	(5,372)
Collection Fund Adjustments	336	150	0	0	0	0
Council Tax Sharing Agreement (CTSA)	(340)	(550)	(650)	(663)	(676)	(690)
New Homes Bonus	(477)	(452)	0	0	0	0
Covid-19 Funding	(1,263)	0	0	0	0	0
L-T Services Grant	(186)	0	0	0	0	0
Other Grants	(12)	(12)	(12)	(12)	(12)	(12)
Credit Loss Adjustment	0	(51)	(51)	(51)	(19)	0
Contribution to/(from) Reserves	(1,350)	0	0	0	0	0
Total Funding	**(16,690)**	**(14,518)**	**(14,955)**	**(15,535)**	**(16,082)**	**(16,652)**
In-Year (Surplus)/Deficit	**0**	**1,504**	**336**	**579**	**1,139**	**74**
Cumulative (Surplus)/Deficit	**0**	**1,504**	**1,840**	**2,418**	**3,557**	**3,631**

3.8.2 The table above shows a deficit of £1.5 million for 2022/23. This primarily reflects the impact of losing Government Support for Covid-19 (£1.263 million) and the contribution from the General Reserve (£1.350) compared to 2021/22. Estimated net expenditure in 2022/23 is £16.022 million, compared to available funding of £14.518 million. The Council is required to eliminate this deficit and set a balanced budget for 2022/23 in February 2021.

3.8.3 Looking further ahead, a further budget gap is expected to open-up again from 2023/24, with a peak annual budget pressure of £1.139 million occurring in 2025/26, following the letting of the new Waste Management contract.

3.8.4 It should be re-emphasised that these figures represent the first iteration of the MTFP in the 2022/23 budget cycle. Finance officers will now work on further refining these estimates in preparing the initial draft Budget proposals. The numbers presented can be expected to both increase and decrease in the coming months, and other factors could also potentially emerge that are not currently reflected in the figures and will have to be factored in.

ANNEX 2

Updated Medium-Term Financial Plan 2022/23 to 2026/27

HOUSING REVENUE ACCOUNT

October 2021

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 The Housing Revenue Account (HRA) embraces both the Communities and Place ambitions to an extent, although the Council has a very clear vision as to where the HRA fits as an integral part of a Stronger Place, which is underpinned by specific aims and objectives, including:

2 Aim – *delivering effective core services that people want*; and

3 Objective – *improving the district housing offer.*

1.3 Through 'horizon scanning' and anticipating necessary change at the earliest opportunity, resilience and the ability to react to and withstand 'major shocks' is achieved. Above all, a robust MTFP for the HRA is also critical to achieving compliance with the Council's legal duty under the Local Government Housing Act 1989 to "maintain a balanced account" and ultimately long-term financial sustainability.

2. Introduction

2.1 This is the first iteration of the MTFP for the HRA in the 2022/23 budget cycle. It is a forward-looking document which provides a tentative look at the Council's HRA picture over the next five years (2022/23 to 2026/27) and re-evaluates the position in the light of developments since the 2021/22 Budget was adopted by the Council in February 2021. Exceptionally, in the light of emerging intelligence from the ongoing HRA Business Plan review, a revised budget for the remainder of 2021/22 is proposed.

2.2 As reported to Members in February 2021, the HRA Business Plan (which underpins final planning on the HRA) has been subjected to a detailed review, which commenced in the spring of 2021. The Council's current 30-Year Business Plan was adopted by the Council in 2018, immediately prior to the Government announcement removing the HRA Borrowing Cap. This has led to a more expansive approach by the Council with Housing Development at its heart.

2.3 A new Business Plan is being designed to support the Council in its current ambitions for Housing, whilst ensuring the long-term financial sustainability of the HRA. It is a detailed undertaking, with the initial results of that exercise, having been used to develop this iteration of the MTFP.

2.4 The MTFP is deliberately concise, focussing on the most significant HRA-related financial issues faced by Epping Forest District Council over the medium-term. Key challenges faced by the HRA over the medium term include the financing of an ambitious Housing Development whilst, maintaining and improving existing Housing Stock. In addition, the Council has been managing some financial pressure on the cost of Housing Repairs, with (demand-led) Void Repairs having been a stubborn problem in recent years.

3. Financial Projections

3.1 2021/22 Budget Adjustments

3.1.1 The starting point for developing the MTFP is the current budget. The 2021/22 HRA budget was approved by the Council on 25th February 2021. It was a balanced budget comprising Net Operating Income of £1.793 million.

3.1.2 In order to develop the MTFP for 2022/23 to 2026/27, it is important to represent the original 2021/22 budget. This requires some small adjustments in two categories:

- *Notional Accounting Adjustments –* specifically, these relate to “IAS19” Pensions adjustments, which are reversed out and required for technically accounting purposes only; and
- *Business Plan Adjustments* – the early results of the review have identified a need to make a limited number of adjustments based upon some changes to capital financing assumptions, relating especially to the re-profiled Housing Development programme (presented elsewhere on this agenda) and the use of the Major Repairs Reserve.

3.1.3 The impact on the budget is presented in the table below.

2021/22 Budget: HRA				
	Opening Budget (Council 25/02/21)	IAS19 Adjustments	Business Plan Adjustments	Adjusted Budget 1st October 2021
	£'s	£'s	£'s	£'s
Employees	4,959,471	- 563,428	-	4,396,043
Premises	3,320,015	-	-	3,320,015
Transport	67,602	-	-	67,602
Supplies & Services	821,663	35,710	-	857,373
Contracted Services	5,987,144	-	-	5,987,144
Support Services (GF Recharges)	3,988,330	-	-	3,988,330
Debt Management Expenses	56,500	-	-	56,500
Bad Debt Provision	91,000	-	- 2,000	89,000
Depreciation	8,782,000	-	-	8,782,000
Total Expenditure	**28,073,725**	**- 527,718**	**- 2,000**	**27,544,007**
Rental Income - Dwellings	- 33,349,344	-	- 77,656	- 33,427,000
Rental Income - Non-Dwellings	- 809,512	-	-	- 809,512
Fees and Charges (Charges for Services)	- 2,092,091	-	-	- 2,092,091
Other Contributions (Shared Amenities)	- 357,000	-	-	- 357,000
Total Income	**- 36,607,947**	**-**	**- 77,656**	**- 36,685,603**
Net Cost of Service	**- 8,534,222**	**- 527,718**	**- 79,656**	**- 9,141,596**
Interest Received	- 36,060	-	6,060	- 30,000
Financing Costs	6,125,000	-	- 387,000	5,738,000
Pension Interest / Return on Assets	652,000	- 652,000	-	-
Net Operating Income	**- 1,793,282**	**- 1,179,718**	**- 460,596**	**- 3,433,596**
Appropriations:				
IAS 19 Pension Adjustment	- 1,179,718	1,179,718	-	-
HRA Contribution to Capital	2,973,000	-	- 2,190,000	783,000
Contribution to/(from) Reserves				
Total Appropriations	**1,793,282**	**1,179,718**	**-2,190,000**	**783,000**
In-Year (Surplus)/Deficit	**0**			**-2,650,596**

3.1.4 The table above shows that (ignoring actual net spending in the year) the 2021/22 budget will record a surplus of £2.650 million due to the reduced need for Revenue Contributions to Capital; this will be used to help fund the 2022/23 Capital Programme (instead of 2021/22).

3.2 Medium-Term Financial Plan

3.2.1 The Adjusted Budget described in Section 3.1 above, has been used as the baseline for producing the MTFP for 2022/23 to 2026/27. The outcome is summarised in the table below.

Housing Revenue Account MTFP (@ October 2021)						
Description	Adjusted Budget 1st October 2021	Estimated Budget Requirement 2022/23	Estimated Budget Requirement 2023/24	Estimated Budget Requirement 2024/25	Estimated Budget Requirement 2025/26	Estimated Budget Requirement 2026/27
	£'s	£'s	£'s	£'s	£'s	£'s
Employees	4,396,043	4,455,088	4,617,540	4,783,668	4,927,179	5,074,994
Premises	3,320,015	3,456,809	3,525,945	3,596,464	3,668,393	3,741,761
Transport	67,602	68,954	70,333	71,740	73,175	74,638
Supplies & Services	857,373	943,166	962,030	981,270	1,000,896	1,020,914
Contracted Services	5,987,144	6,106,887	6,229,025	6,353,605	5,532,804	5,670,838
Support Services (GF Recharges)	3,988,330	4,578,097	4,697,128	4,819,253	4,944,554	5,069,855
Debt Management Expenses	56,500	58,000	59,000	60,000	61,000	62,000
Bad Debt Provision	89,000	92,000	97,000	102,000	108,000	109,000
Depreciation	8,782,000	8,958,000	9,137,000	9,320,000	9,506,000	9,696,000
Total Expenditure	**27,544,007**	**28,717,000**	**29,395,000**	**30,088,000**	**29,822,000**	**30,520,000**
Rental Income - Dwellings	- 33,427,000	- 34,883,000	- 36,844,000	- 38,763,000	- 40,934,000	- 41,405,000
Rental Income - Non-Dwellings	- 809,512	- 827,000	- 843,000	- 860,000	- 877,000	- 895,000
Fees and Charges (Charges for Services)	- 2,092,091	- 1,500,000	- 1,530,000	- 1,560,000	- 1,592,000	- 1,623,000
Other Contributions (Shared Amenities)	- 357,000	- 364,000	- 371,000	- 379,000	- 386,000	- 394,000
Total Income	**- 36,685,603**	**- 37,574,000**	**- 39,588,000**	**- 41,562,000**	**- 43,789,000**	**- 44,317,000**
Net Cost of Service	**- 9,141,596**	**- 8,857,000**	**- 10,193,000**	**- 11,474,000**	**- 13,967,000**	**- 13,797,000**
Interest Received	- 30,000	- 4,000	- 2,000	- 1,000	-	- 3,000
Financing Costs	5,738,000	5,595,000	6,186,000	6,730,000	6,952,000	6,991,000
Net Operating Income	**- 3,433,596**	**- 3,266,000**	**- 4,009,000**	**- 4,745,000**	**- 7,015,000**	**- 6,809,000**
Appropriations:						
HRA Contribution to Capital	783,000	6,021,000	4,011,000	4,745,000	7,017,000	4,891,000
Contribution to/(from) Reserves	0	0	0	0	0	0
Total Appropriations	**783,000**	**6,021,000**	**4,011,000**	**4,745,000**	**7,017,000**	**4,891,000**
In-Year (Surplus)/Deficit	**- 2,650,596**	**2,755,000**	**2,000**	**0**	**2,000**	**- 1,918,000**

3.2.2 There are a range of issues and assumptions underpinning the position presented in the table. These include:

- *Inflation* – consistency with the General Fund has been applied to inflationary assumptions (e.g. through a core 2.0% increase on expenditure). On Housing Rents, a 3.0% rent increase has been assumed throughout in accordance with the Rent Standard (Inflation + 1%); that assumption will be refined upon release of the September 2021 CPI rate. It should also be noted that 2025/26 is a 53 Week Rent Year, thus providing additional income

- *Increased Budget Demand* – in addition to inflation, some other miscellaneous budget pressures are embedded within the MTFP. Of immediate concern is lost income from the “Telecare” service (£268,740 in 2022/23 base budget), which is now a free service provided by Essex County Council (this is currently impacting on the 2021/22 budget); and

- *(Reduced) Budget Demand* – there are also some positives to note. The development of the new HRA Business Plan has identified some improved assumptions for rental income (e.g. with new properties coming into the portfolio). It is also worth noting an assumed saving of £900,000 in the base budget for Housing Repairs with effect from 2025/26 (one of the deliverables included in the Qualis initiative).

3.2.3 It can be seen from the table that a deficit of £2.755 million is revealed in 2022/23, following an initial surplus of £2.651 million in 2021/22 (described above in Paragraph 3.1.4). The surplus virtually matches the deficit, so achieves stability over the two-year period.

3.2.4 The table also shows a relatively stable position from 2023/24 onwards, with a surplus of £1.918 million anticipated in 2016/17.

3.3 HRA Business Plan ("Fortress")

3.3.1 The HRA Subsidy Determination 2011/12 introduced 30-year modelling for the first time as part of the move to the 'self-financing' regime for local authority housing in April 2012, with councils (who retained a housing stock) taking on debt in lieu of making subsidy payments to the Government.

3.3.2 As noted above in Paragraph 2.2, the Council's existing 30-Year Business Plan, which assumes the repayment of debt in full, is now obsolete and does not support current Housing Development plans. The development of an updated Plan is therefore a priority and to that end, the Council is utilising "Fortress".

3.3.3 The Fortress model is a forecasting and stress-testing HRA Business Plan model that provides local authorities with business plan results derived from the Council's own housing data, with the ability to overlay scenarios and test sensitivity to change.

3.3.4 In simple terms, an HRA Business Plan considers the timing and expected amount of all sources of income and expenditure (both revenue and capital) in the HRA over a period of up to 40 years and, given a range of economic factors, will predict whether:

- The HRA can repay its loans as they fall due; and
- The HRA maintains a minimum level of revenue balances over the life of the plan.

3.3.5 The model takes account of the investment required to manage and maintain existing housing stock as well as that required to build and maintain new development. It can forecast likely income that from RTB sales and predict whether 1-4-1 receipts can be fully utilised within Government deadlines. It can also forecast the need for, and affordability of, additional borrowing to support the Capital Programme and other aspirational plans.

3.3.6 Once the Council's HRA Business Plan has been agreed, Fortress can be used extensively for the purposes of scenario planning encompassing a range of "what ifs" about a wide range of economic factors.

3.3.7 Populating the model is a substantial undertaking, with a vast range of inputs required from budgets, reserves and loans, through to stock numbers, rent information and Housing Development plans. The Rent Module is especially comprehensive with the rent basis for all 6,382 social and affordable rented properties loaded into the model; the exercise has already flagged a range of anomalies that are being targeted for future improvement, which will increase technical compliance and drive additional income.

3.3.8 The Housing team are currently preparing more granular detail on the phasing of the Capital Works programme, which will allow further refinement of the figures. Of greater significance is the Stock Condition Survey which is currently in progress; once complete, the exercise will enhance the accuracy of the outputs from the model and will also enable the Plan to be extended from 30 to 40 years.

3.3.9 It is possible at this stage to draw some early conclusions. Based on current data on development and stock condition profiling, the HRA Business Plan should:

- Maintain the existing housing stock in accordance with lifecycle replacement costs (caveat – but the new Stock Condition Survey may provide different results), subject to smoothing of expected works over 2022/23, 2023/24 and 2024/25; and
- Deliver a mixture of affordable rent and shared ownership properties by 2025/26, including:
  - New Build Properties (212 affordable rent units); and
  - Qualis Acquisitions (22 shared ownership, and 67 affordable rent units).

3.3.10 This can be achieved whilst maintaining a minimum HRA revenue balance of £2.0 million over 30 years, although to achieve the development programme, further borrowing will be needed to supplement the use of capital receipts, grants, 1-4-1 replacement receipts and revenue contributions. The plan will also require future loan refinancing to fund repayments totalling £120.0 million as they fall due. Borrowing is minimised through a range of measures including the use of the earmarked Self-Financing Reserve (£12.720 million as at 31/03/21) and the Major Repairs Reserve (£8.840 million as at 31/03/21). Peak debt of £240.980 million is forecast in Year 20.

3.3.11 Upon completion of detailed refinements, including further consultation with our Treasury Management advisors, Arlingclose and the incorporation of the results from the Stock Condition Survey, a new (40-Year) HRA Business Plan will be formally prepared and presented to scrutiny before proceeding to Cabinet for approval.