CABINET
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MEDIUM TERM FINANCIAL PLAN – General Fund (GF), Housing Revenue Account (HRA) and Capital Programme
PROGRAMME

Cabinet Member	Cllr Andrew Moore, Cabinet Member for Finance
Responsible Officer	Andrew Jarrett – Deputy Chief Executive (S151)

Reason for Report: To present to Member's the updated Medium Term Financial Plan (MTFP) which covers the period 2022/23 to 2026/27 and takes account of the Council's key strategies (i.e. the Corporate Plan, Business Plans, Treasury Management Plan, Asset Management Plan, Work Force Plan and Capital Strategy) and demonstrates it has the financial resources to deliver the Corporate Plan. This models potential changes in funding levels, new initiatives, unavoidable costs and proposed service savings.

RECOMMENDATION: Members note the updated MTFP's for the General Fund and Housing Revenue Account and the updated Capital Programme all covering the five years 2022/23 to 2026/27 and endorse the proposals outlined in paragraph 9.2 as the approach to balancing the General Fund Revenue Budget.

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

Financial Implications: By undertaking an annual review of the MTFP the Council can ensure that its Corporate Plan priorities are affordable. The implications of the revised budget gap are set out within the paper. Many areas require greater clarity, particularly around national funding including the Comprehensive Spending Review 2021, Fair Funding Review, Business Rates Retention and any on-going Covid-19 impact. Therefore a number of key assumptions underpin the reported position, which will be refined as greater clarity is received through the budget setting process.

Budget and Policy Framework: The Council has an annual legal requirement to set a balanced budget. The MTFP provides an overarching steer of what the Council can afford to deliver over a rolling five year period and is instrumental in setting the budgetary context for next year's budget setting process.

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

Risk Assessment: The MTFP makes a number of financial assumptions based on a sensible/prudent approach, taking account of the most up to date professional advice that is available. However, many of these assumptions are open to challenge and due to this fact **Appendix 1** of this report shows the financial effect on key items in the plan if assumptions were to change (this is referred to as sensitivity analysis).

Equality Impact Assessment: No implications arising from this report.

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

1.1 The main purpose of the MTFP is to show how the Council will strategically manage its finances in order to support the delivery of the priorities detailed in the Corporate Plan 2020 – 2024 and future years beyond that plan.

1.2 The MTFP links the financial requirements, constraints and objectives included in all the key planning documents of the Council (i.e. Asset Management Plan, Treasury Management Strategy, Work Force Plan, and Business Plans) which culminate in the Corporate Plan.

1.3 The MTFP has been a key corporate requirement for a number of years and is an essential part of the budget setting process. It provides a financial model which forecasts the cost of providing Council services over a future rolling five year period, together with an estimate of the financial resources that will be available. This model provides an early warning mechanism if there is a significant budget gap between estimated costs and available resources.

1.4 The MTFP helps strategically plan the budget setting process, but of equal importance, gives Management and Members an overview of future budget gaps so strategic decisions can be made over levels of future spending, Council Tax levels, policies for fees and charges, asset investment or disposal, etc.

1.5 In addition to considering the General Fund financial position, the MTFP also reviews the affordability of the Council's Capital Programme over the same five year period. It forecasts required capital projects (in the main focusing on essential asset replacement and health and safety items) matched against potential capital receipts and grant funding.

1.6 In addition to these two key areas of Council expenditure the Council also prepares an MTFP for the Housing Revenue Account. This also shows a five year programme and outlines the key issues affecting the HRA costs and income streams from April 2022 onwards.

2.1 The starting base for the MTFP is the 2021/22 approved budget, which is then adjusted for any supplementary estimates approved by the Council or any significant budget variances identified in the monthly budget monitoring report to the Cabinet.

2.2 This base then has to be adjusted for unavoidable costs, such as, pay increases, inflation, service pressures associated with new legislation, a growing residential or business property base or improving performance, etc. The MTFP will also consider forecasts for investment receipts and income from fees and charges.

2.3 Finally the MTFP considers and makes assumptions regarding future levels of funding, in particular Council Tax including the potential growth in tax base, Business Rates again including any movement in the baseline as well as changes in the reliefs, multipliers and overall retention levels. Forecasts are also made for the likely level of future Central Government funding.

2.4 The MTFP models an overall aggregated position for the Council based on a range of assumptions. This then predicts an overall budget position, which can highlight a potential budget gap and then propose remedial action which can be taken to resolve it. Clearly, these assumptions can be challenged. They will vary due to changes in the local, national and international economic position and of course, the ongoing consequences of the Covid-19 crisis will have implications, not only for the current year, but also for the years to come.

2.5 The development of a five year financial model is based on a number of assumptions and perceived risks. These become more difficult to predict the further into the future you consider. In general terms a prudent/reasonable approach has been taken regarding forecasts, professional accounting guidance has been followed and external technical opinion has been sought where necessary. As a consequence, **Appendix 1** illustrates possible risks within the plan and the potential financial sensitivity to changes in the assumptions.

2.6 The following underlying principals have been adopted as a base assumption during the life of the MTFP:

2.6.1 <u>Principal 1 – General Fund Reserves</u>

- Each year the Council will target a balanced revenue budget without the use of General Fund reserve balances. The level of predicted deficits over the period of this plan may ultimately require the application of reserves to a degree to achieve the mandatory balance. However, this option is not reflected in the numbers presented;

- The Council faces considerable financial risks that can have a potentially significant and immediate impact on its finances. The MTFP will attempt to ensure that the General Fund Reserve balance does not fall below the current minimum agreed level (£2m). However, as above, this floor may well be breached as a last resort to achieve a balanced budget.

2.6.2 Principal 2 – Optimise Income Generation

- Council Tax funds the largest share of the Council's budget. Annual increases will be kept within Government set guidelines. In reality this now gives the Council very little scope to significantly increase Council Tax income as the current nationally prescribed referendum rate is likely to be a maximum of 2% or £5 for the 2022/23 financial year. This plan assumes that the current rate will remain unaltered throughout the five year cycle;

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

2.6.3 Principal 3 – Allocation of Revenue Resources

- Resources will be directed to high priority services and hence away from low priority services. With the exception of spend to save projects on lower priority services that can either cut future costs or increase revenue to enable cross subsidisation of higher priority services;

- It will seek to deliver further efficiency in its service delivery models and secure procurement savings in its new contractual arrangements which will then be factored into future spending plans.

2.6.4 Principal 4 – Allocation of Capital Resources

- The Council will continue to prioritise schemes, for instance to generate income, to meet corporate objectives and to enhance its asset base;

- The Council will continue to ensure it provides Value for Money through the efficient and effective use of its assets. The Council will look to dispose of surplus assets in order to maximise capital receipts and reduce ongoing revenue maintenance costs associated with holding the asset. Careful consideration will also need to be used to ensure the maximum market value is achieved when disposing of assets;

- Prudential borrowing will only be made during the life of the MTFP after the production of a fully costed business case that demonstrates how the investment meets the Council's policy objectives, has exhausted all other external funding routes and delivers measurable improvement within a reasonable payback period;

- The Council will keep its internal borrowing under review and when appropriate will consider the potential to fix rates in the medium to long term to manage the risk and potential financial impact of interest rate increases. The Council continues to consult specialist advice to keep this under review.

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

3.1 Members will be aware that this MTFP has been developed against a backdrop of an aggregate cut in Central Government Grant of c£5m between 2010/11 and 2020/21, and an international pandemic that has had an unprecedented impact on the Council in terms of its finances, the allocation of its resources and ways in which it delivers its services; yet the Council continues to deliver a wide range of well performing services.

3.2 This Medium Term Financial Plan (MTFP) has been developed to provide a financial framework within which the Council can deliver the priorities in the Corporate Plan. This strategy focuses on the forward financial issues/pressures facing the General Fund and Capital Programme.

3.3 There are still some fundamental issues that have not been resolved or are still to be fully evaluated. These issues may either improve or worsen the summary budget position currently reported and are covered in Section 7 of this report, but can be summarised as follows:

- Impact of the Comprehensive Spending Review (SR21) and the Autumn Budget and their consequences for the Local Government Financial Settlement due in December;

- Changes to Central Government funding schemes including New Homes Bonus and Business Rate allocations/mechanics;

- Longer term implications of Covid-19

- Ongoing service reviews (including changes to fees and charges) as services look to improve the efficiency and effectiveness of their delivery.

3.4 Although SR21 will cover the period 2022/23 to 2024/25 and therefore a 3-year financial settlement is expected, many aspects of the government’s reforms to the Local Government Finance system are unlikely to be resolved in time for April 2022. For example, the Business Rates revaluation has been delayed until 2023/24. Sector expectations are that the Business Rates Reset and New Homes Bonus Scheme replacement will also apply from 2023/24. This clearly makes forecasting for future years very difficult.

3.5 An element of the previous multi-year financial settlement was “Negative RSG”. This arose when a Council’s Revenue Support Grant had been reduced to nil, yet further austerity cuts were required so a downward adjustment is applied to the Business Rates tariff. Following lobbying, the financial impact of this adjustment has been mitigated with additional funding. However, due to the delay in the Fair Funding Review, the permanent resolution to this issue has not been announced. Therefore, at this time “Negative RSG” remains in the assumptions.

3.6 Members will appreciate that some of the indicative savings will require political support and therefore if some suggestions are deemed to be unacceptable then other savings will need to be proposed.

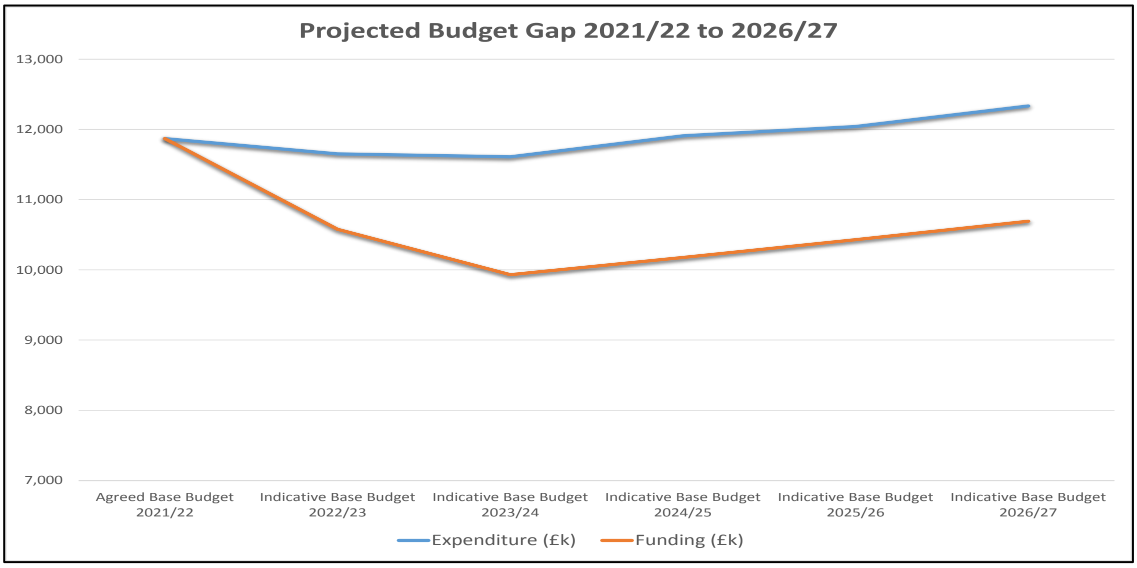
3.7 The MTFP shows the strong inter-relation between the General Fund and delivering a sustainable Capital Programme. The significant increase in the forecast capital expenditure has implications for the Revenue budget that are captured by this MTFP. Any variation to, or slippage in, that programme will also need to be reflected.

4.1 Table 1 and the associated graph shown below, gives a summary position for the MTFP over the next five years, with greater detailed information is shown in **Appendix 2**. This shows an overall deficit of £1,643k over the life of the plan, although the peak deficit occurs in 2024/25 at £1,732k. This future budget gap is equivalent to approximately 13% of the projected budget requirement by 2026/27.

Table 1 – MTFP General Fund Summary

2021/22		2022/23	2023/24	2024/25	2025/26	2026/27
£000		**£000**	**£000**	**£000**	**£000**	**£000**
11,870	**Expenditure**	11,651	11,612	11,909	12,041	12,335
(11,870)	**Funding**	(10,579)	(9,932)	(10,178)	(10,429)	(10,692)
0	**Annual Shortfall**	**1,072**	**607**	**52**	**(119)**	**30**
0	**Cumulative Shortfall**	**1,072**	**1,680**	**1,732**	**1,612**	**1,643**

Graph 1 – Projected MTFP Budget Gap 2021/22 to 2026/27



4.2 Due to the cumulative nature of this plan, if the Council balances its revenue spend to its available funding, each subsequent year will only then need to find the difference. However, if no remedial action is taken to reduce the overall level of spend, the MTFP predicts an estimated cumulative shortfall on the General Fund budget of £7,739k (made up of the cumulative amounts required to balance the budget each year). At present the General Fund reserve of £2,186k would be insufficient to absorb the deficits over this period, although is sufficient to cover any individual year's shortfall.

4.3 This deficit is almost all accumulated during the first two years of the MTFP timeframe. In 2022/23, there is a significant reduction in funding forecast as the one-off Covid-19 funding and Lower Tier Services Grant is removed, along with the expected reduction in New Homes Bonus. This is partially offset by forecast increases in Business Rates and Council Tax income. In 2023/24, a significant reduction in Business Rates income is included to reflect the reforms to the Retention Scheme the Government are considering, including the Revaluation and Baseline Reset.

4.4 This is clearly a challenge based upon a number of assumptions, caveats, decisions based upon external advice and the most up to date information available at this time. These predictions have included amounts to fund the future Capital Programme and estimates of future cost movements.

4.5 There is some small mitigation in that the forecast Outturn for 2021/22 (shown separately on this meeting agenda) is expected to be around the breakeven mark.

4.6 Clearly, any major variations in these assumptions would require a fundamental review of the Council's MTFP and would be reported back to Cabinet and the wider Membership as soon as practical, coupled with proposed courses of action that could be implemented.

4.7 The Council has a legal requirement to set a balance budget and needs to ensure its overall costs are affordable i.e. they can be funded through income and planned use of reserves. Members therefore need to take the necessary decisions and actions to manage net spending within affordable limits.

5.1 The Capital Programme includes new bids for capital funding to support new programmes as well as 'rolling' items already highlighted in the current year's Capital Programme (i.e. Affordable Housing/Private Sector Housing Grants, the Major Repairs Account and the 30 year modernisation programme). There is no inclusion of slippage within the MTFP; approval is sought at Outturn to carry forward the approval, and the financial impact is added to the current financial year. Therefore all schemes included with this Capital Programme are new and have not yet started or received formal approval. In February, Member's will be asked to approve the Year 1 programme and note the indicative future years.

5.2 Table 2 below, shows the capital funding position during the life of the MTFP. A more detailed analysis of the overall schemes and potential funding is attached as **Appendix 3**.

Table 2 – MTFP Capital Programme

2021/22		2022/23	2023/24	2024/25	2025/26	2026/27
£000		£000	£000	£000	£000	£000
	General Fund:					
10,755	**Capital Requirement**	**25,158**	**38,293**	**17,013**	**14,050**	**7,574**
	Funded by:					
2,094	Existing Funds	14,360	15,386	1,698	665	644
8,661	PWLB Borrowing	10,798	22,907	15,315	13,385	6,930
10,755	**Total Funding**	**25,158**	**38,293**	**17,013**	**14,050**	**7,574**
	Housing Revenue Account:					
6,950	**Capital Requirement**	**29,462**	**19,930**	**17,790**	**21,830**	**17,100**
	Funded by:					
3,733	Existing Funds	10,237	10,175	10,266	10,667	9,272
3,217	PWLB Borrowing	19,225	9,755	7,524	11,163	7,828
6,950	**Total Funding**	**29,462**	**19,930**	**17,790**	**21,830**	**17,100**
17,705	**Overall Capital Requirement**	**54,620**	**58,223**	**34,803**	**35,880**	**24,674**
17,705	**Overall Funding**	**54,620**	**58,223**	**34,803**	**35,880**	**24,674**

5.3 The available receipts are based on a prudent basis, with no major asset sales (other than right to buy sales) factored into the model. Similarly, prudent assumptions are included for the availability of Capital Grant to help mitigate some of the proposed costs. If additional receipts are generated, or grant received, the capital prioritisation list could be revisited to bring forward new schemes into the programme or decrease the contribution from New Homes Bonus or reduced/repay any borrowing requirement. The draft Capital

Programme will also be reviewed/challenged by the Capital Strategy Asset Group (CSAG).

5.4 This forecast shows a marked increase in the borrowing requirement over the duration of the MTFP. This is largely due to a significant plan to increase the HRA Housing stock through the HRA and plans to fund housing developments through 3Rivers. As with all capital projects, these are all subject to a full appraisal. A prudent assumption has been included for the utilisation of 1-4-1 receipts or for additional grant funding to be made available from Homes England; although a substantial element of the cost remains with the Council.

5.5 Similarly, a number of bids are included that will help the Council deliver is commitment to climate change and reducing carbon emissions. Again, it is anticipated that external funding will also assist with the funding of these bids, but at present the prudent position of undertaking borrowing is shown.

5.6 There is an assumption included in respect of the Housing Infrastructure Funded (HIF) projects. Currently, funding has been received to cover the initial projected estimated cost of the projects. However, costs have dramatically increased since that funding was received. Therefore the Council has submitted a bid to the Levelling Up Fund to cover the forecast difference for the Cullompton project. The Council awaits the outcome of this bid, but the assumption is that it will be successful and the Capital Programme reflects both the increase in costs and the additional Levelling Up funding. However for the Tiverton project, the assumption is that the shortfall (currently estimated to be £1.9m) will be funded through borrowing.

5.7 Currently there is no revenue contribution to the Capital Programme. Instead, the New Homes Bonus is earmarked for funding elements of the Capital Programme. However, as previously stated, the current New Homes Bonus scheme is due to cease in 2022/23 and a replacement is expected. Depending on the level of funding gained from this replacement scheme the Council will need to consider how it might be able to make a revenue contribution. Ultimately, any outstanding funding requirement after utilising revenue contributions, reserves and any external funding sources will need to be funded through Prudential Borrowing.

5.8 The Council currently operates a policy of “internal borrowing” whereby it utilises its cash balances rather than undertaking new loans. It is recommended that the Council continues to maximise its use of internal borrowing rather than seeking to fund projects through new external borrowing whilst cash balances remain above £10m. However, given the scale of the proposed Capital Programme, this will not be sufficient to fund all bids. Therefore, the Council will consider the potential to fix rates in the medium to long term to manage the risk and potential financial impact of interest rate increases.

6.1 The HRA is a ring-fenced account within Mid Devon's financial accounting system. This means that a balanced budget must be set each year including all income and expenditure pertinent to the Council's landlord function and excluding all other income and expenditure (since this would be captured as part of the General Fund budget).

6.2 The draft HRA MTFP for 2022/23 to 2026/27 is summarised below, with greater detail included within **Appendix 4**.

2021/22		**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
£000		**£000**	**£000**	**£000**	**£000**	**£000**
7,059	Direct Expenditure	7,978	8,137	8,348	8,564	8,787
(13,218)	External Income	(13,576)	(14,247)	(14,824)	(15,692)	(16,273)
(6,159)	**Net Cost Of Services**	**(5,598)**	**(6,110)**	**(6,476)**	**(7,128)**	**(7,486)**
6,159	Indirect Expenditure	5,499	6,109	6,775	7,196	7,705
0	**Budget (Surplus) / Deficit**	**(99)**	**(1)**	**299**	**68**	**219**
0	**Cumulative (Surplus) / Deficit**	**(99)**	**(100)**	**199**	**267**	**486**

6.3 This shows that only the first two years of the forecast is able to generate a surplus and therefore contribute to the Housing Maintenance Fund (HMF). In the remaining years there is a deficit that needs to be addressed, rising to £486k if no remedial action is taken.

6.3.1 In addition to the above, recent legislation post Grenfell is likely to place significant additional budgetary pressure across the whole of the HRA. Similarly, there is remedial action required to mitigate the recommendations from the recent Fire Assessment Audit. Work is underway to evaluate the size and scope of this new burden and it is hoped will be available to be assimilated into the 2022/23 budget setting process. This is assumed to be funded from drawdowns from the Housing Maintenance Programme.

6.3.2 £200k has also been included to begin to address Carbon reduction in line with the Council's commitment. This is assumed to be funded through external bids to the Government's Decarbonisation Scheme.

6.4 As per the General Fund budget, Covid-19 continues to impact the HRA in terms of delayed maintenance, rent arrears and income collection. It is unclear how long any impact will continue, or how any wider economic uncertainties might impact. Therefore, the budget has been set with prudent assumptions so the above position could improve.

6.5 <u>Direct Expenditure</u>

6.5.1 Pay inflation has been included at 3.75% in year 1 and then 2% across the remainder of the timeframe. In addition, two new posts are included to address Health and Safety responsibilities and £100k has been added to address the current pressure on Recruitment and Retention. Other non-staffing related costs of providing both the repairs and tenancy services are increased by 3% in line with CPI.

6.5.2 The Council's policy is to lease vehicles meaning that the cost of running and maintaining a fleet falls on the budget. Overtime as more of the fleet is replaced the pressure on the budget grows, therefore £50k is included to top up the budget and create a sinking fund that will help with future costs.

6.5.3 During the 2019/20 year end, at the beginning of the Covid-19 pandemic, the Council increased its provision for bad debts by £100k in 2023/24, £50k of that increase is expected to be reversed as debts recover to pre-Covid-19 levels. There could also be the option of fully reversing that increase, but again a prudent assumption has been applied at this time.

6.6 <u>Income</u>

6.6.1 Rent policy set out by central government states that existing rents must be increased annually by the previous September's CPI rate, plus an additional 1%. At present this rate is not yet known so an assumption of 3% has been applied in 2022/23. Given CPI is currently at 3% (August 2021), this is prudent but also allows for the ongoing impact of Covid-19 and economic constraints, including:

- Lost rental income as houses are sold through the Right to Buy scheme – assumed net loss of 12 units per annum after including those that the Council re-purchase;
- Increased void turnaround times mean that more properties sit empty at any one time, thus generating no rent;
- Income collection has become more challenging since the pandemic impacted and this could lead to increased write-offs of arrears.
- Similarly, the ongoing transition to Universal Credit means that some rents that would have been received automatically are now recoverable from the tenant. Where tenants suffer a financial impact from the current climate, arrears are likely to increase with the potential for further write-offs, which represent a cost to the Council;
- The £20 reduction per week to Universal Credit will impact those most vulnerable and could lead to lower collection levels.

Future years uplifts pair back from this value, with 2.5% in 2023/24 and 1.5% in future years. This is felt to be appropriately prudent.

6.6.2 Due to the current economic climate it is also assumed that garage ground rents will be retained at their current level, £275 per annum. This can be reviewed in a year's time when we may have more economic certainty.

6.6.3 With interest rates at historic lows and not forecast to increase dramatically over the MTFP period, income generated from interest where cash balances have been invested is also assumed to be at prudent levels.

6.7 Indirect Expenditure

6.7.1 There is a marked increase in the cost of Capital Financing reflecting the proposed investment in housing shown in the Capital Programme. As stated within Section 5 above, assumptions have been made on the opportunity to increase the number of units, the cost of these units, the timing of the build programme, and the impact on the HRA finances including debt financing and additional rental income generated based upon Social Rent. This is also a prudent view as any units deemed to be Affordable will generate higher rentals.

6.7.2 As stated in 6.3.1 and 6.3.2 above, as assumption has been made to draw down £200k per annum from the Housing Maintenance Programme and a further £200k will be obtained through bids to the Governments Decarbonisation Scheme.

6.8 Any surpluses generated by the HRA are used to contribute to the Housing Maintenance Fund (HMF). This fund is designed to meet any spikes in the cost of major works in the HRA's plan to 2048. The combination of inflating expenditure more than income, along with the consequence of the significant capital investment only leaves an assumed value to be transferred to the HMF in year one. The remaining years all forecast a deficit and therefore a drawn on the HMF at this time. However, the HMF currently holds over £15.1m but in order for this to avoid reducing too far, savings or further income generation proposals will need to be identified.

7.1 The Council currently has an uncommitted General Fund Balance of £2,186k which is slightly above the current balance of £2m set by Full Council. Therefore the Council should look to match on-going spending plans to available in-year resources.

7.2 A Council holds this reserve for a number of reasons. Firstly to deal with any short term cash flow or funding issues. Secondly to provide a contingency for exceptional one-off acts (i.e. flooding, fire, terrorism, business rate failure, etc.) and, thirdly to provide a buffer for known circumstances whose final effect is unknown (i.e. changes in legislation or major funding changes). Clearly, the more uncertainty that exists, the higher the balance required to mitigate this risk. This level of minimum reserves is assessed annually to ensure it is adequate.

7.3 As stated above, this plan does not include any utilisation of these reserves. However, with the scale of the deficit in the initial years, it is conceivable that some utilisation could be necessary. If so, this should be on the basis that the reserve is replenished by the end of the MTFP period.

7.4 The Council also holds Earmarked Reserves which have been set aside for a specific purpose, such as sinking funds for asset replacement. The overall balance has increased markedly in 2020/21 largely due to the Council holding balances relating to Covid-19 grant funding that will be utilised over the current year and future years in line with government requirements. As such, these reserves are not available to support the budget. However, a review of all earmarked Reserves is undertaken annually and any identification of funding no longer required to be earmarked can be released and could be used to support the budget. As these funds are one-off, they should not be used to support ongoing expenditure and therefore only delay the requirement for the identification and implementation of a sustainable saving.

8.1 Ongoing risks and uncertainty for the budget at this stage include:

8.1.1 **Comprehensive Spending Review (SR21) and the Autumn Budget** – the Council await the announcement of government spending limits over the years 2022/23 to 2024/25. The headline is that spending should grow in real terms by 4% per annum, yet Government have already announced higher funding for some key departments such as NHS, Education and Defence, therefore unprotected Departments such as Local Government are likely to see in excess of 1% real terms cuts. Although it is not possible to interpret what this might mean for Mid Devon District Council, it should give a guide and signpost the direction of travel for Local Government Finance;

8.1.2 **Local Government Finance Settlement (LGFS)** – the Council await the Provisional Settlement expected to cover 2022/23 to 2024/25 and be announced in December. The previous multi-year settlement expired in 2019/20 and for the last two years has simply been rolled forwards as the sector awaits the outcomes of the much delayed Fair Funding Review. Whilst a multi-year settlement offers some certainty over the level of grants, there will be further risks and changes which will affect 2022/23 budget setting.

8.1.3 **New Homes Bonus (NHB)** – The NHB scheme has been more favourable to District Council's than other tiers due to its underlying formulae. However, due to the success of the scheme, and critically the associated cost, the scheme has been reduced. The calculation of NHB was changed in the 2017/18 Finance Settlement and a "top-slice" of 0.4% of growth was introduced alongside the reduction from six years to five years. The allocation was reduced to four years in 2018/19 and it is expected receipts under this scheme to end in 2022/23. The Government has consulted on various options to replace NHB, but as yet there is no clarity on whether there will be a replacement grant with a housing incentive. If the formulae used is closer to the main needs assessment mechanism used in the Revenue Support Grant, District Councils will received less. Therefore, is it not possible to predict whether Mid Devon District Council will continue to receive any of this funding allocation.

8.1.4 **Council Tax** – The MTFP is based on the assumption of a maximum £5 increase on a Band D property each year. This may of course not be possible due to Central Government restrictions. This is only likely to be known on an annual basis as each Settlement is announced. There is lobbying to remove, or relax, the referendum limit

8.1.5 **Council Tax Base** – The 2021/22 budget assumed a reduction in the collection rate. This MTFP forecasts a prudent recovery, rising from the current 96% to 97% in 2022/23 and then back to the normal 98% in 2023/24. Future long term growth relies on the large scale infrastructure projects such as J28, Tiverton Eastern Urban Extension and Culm Garden Village.

8.1.6 **100% Business Rates Retention** – In the Autumn Statement 2015 the Government confirmed its intention to allow local authorities to keep 100% of business rates income by 2020. As with the fair funding Review, any proposed changed have been significantly delayed, with current understanding indicating that they will not be brought in before 2023/24.

The aspects of the scheme being reviewed include the level of income retained (i.e. increasing from 50% to 100%) and the frequency of Revaluations and Baseline Resets. The latter could significantly impact the Council as growth in the business rates baseline since 2013 is currently retained. A full or partial reset of this baseline will divert resources away from Mid Devon. The sector also awaits what transitional measures will be included to smooth this detrimental impact.

8.1.7 **Levelling up / Community Renewal Fund** – At present, the Council is awaiting the outcome of these bids for substantial funding. Should the bids not be successful, plans to deliver major infrastructure projects will require rethinking and the identification of other funding sources. Even if successful, there may be knock-on implications as yet unknown that come to light that have financial consequences.

8.1.8 **Covid-19** – Although all forms of financial support from Government have ceased, the Council is still experiencing a significant drop in service income levels. Leisure and wellbeing provision has been put at significant risk with patronage levels being slow to recover. Car parking income is affected as many continue to work from home, or shop online instead of on the high street. These “new ways of working” may signal a step change in behaviour and income levels may be permanently lowered. It is difficult to project if and when full recovery may occur but this is unlikely to be for a couple of years. Now the Council is focused on aiding the economic recovery, further cost pressures are likely to occur. However, there are also some financial savings that have been realised such as reduced travel costs. The Council will need to continue to realise these savings where possible.

8.2 Other Uncertainties:

8.2.1 **National Insurance** – The announcement of the new Health and Social Care increase in National Insurance was accompanied by a commitment to cover this additional direct cost for Councils. However, all organisations will see an impact from this including the Council's contractors. Will they be able to absorb this cost or will it inevitably be passed on to the customer, i.e. the Council.

8.2.2 **Housing and Homelessness** – during Covid-19, additional funding was received to support Homelessness. In addition, rules preventing evictions by private landlords were applied. Now these have both stopped, along with other financial measures that supported households such as Furlough and the additional £20 Universal Credit, along with likely increased utilities bills, will the service see increased pressure?

8.2.3 **Inflation** – currently rates are increasing rapidly, with August showing the largest ever recorded in the 12-month CPIH series. However, this is likely to be a temporary increase due to the implications of Covid-19 measures taken in August 2020 by the government, such as Eat Out to Help Out and reduction in VAT. This could be critical though for the Council as it will feed into 3rd party contracts prices and pay inflation.

8.2.4 **Waste Strategy –** The Government are currently considering what waste should be collected, how frequently it should be collected and whether Council's can charge for particular elements of the waste collected, i.e. Garden Waste. The Council is currently piloting a 3-weekly collection programme and collects over £500k through charging for Garden Waste. Should the government change its requirements, how will the financial implications for the council be offset?

8.2.5 **Capital Programme** – the attached programme covers the next five years. Any amendment to spending proposals could contain further revenue budget implications such as borrowing costs.

8.2.6 **Growth of property and commercial base** – stepped cost impact but additional revenue based on current Government incentives (payment by results of delivery).

8.2.7 **Further cuts to Welfare system** and impact of the roll-out of Universal Credit Scheme.

8.2.8 **Risk of spend to save projects** and commercial investments – will projected savings and incomes materialise?

8.2.9 **Changes to DCC funding** provision of specific services that could have a knock on effect to Mid Devon (e.g. Grounds Maintenance contributions, support for recycling activities and changes to municipal tips).

8.2.10 **"Spend to save" costs** associated with the business and digital transformation projects and ongoing savings delivered in subsequent years.

8.3 All of the above items highlight once again just how difficult it is to forecast ahead with any degree of accuracy. Nevertheless, the MTFP helps us examine the likely trends to assist in setting realistic capital and revenue budgets going forward.

9.1 Many of the issues, assumptions and sensitivity of items included within the MTFP are complex, often inter-related and will undoubtedly be subject to variation and ultimately fundamental review depending on the levels of future funding reductions. However, strategic decisions have been ongoing to reduce the current and future operational costs.

9.2 The level of uncertainty in funding and external pressures as outlined in Section 8 makes forecasting difficult and with it a need to highlight risks and the need to push for further efficiencies within services. The MTFP shows an overall funding gap of £1,643k up to 2026/27 with a spike in 2024/25 of £1,732k. In order to reduce this deficit the Council will strive to constantly manage its costs and revenues by:

9.2.1 A continued reduction of service and employee costs – which may incur short term upfront costs.

9.2.2 Ensure fees/charges are revisited regularly and that the Council are charging appropriately for all items possible.

9.2.3 Continue and expand partnership working where practical.

9.2.4 Investigation of a number of spend to save projects.

9.2.5 Review the current and future property asset requirements.

9.2.6 Maximise procurement efficiencies.

9.2.7 Explore new commercial opportunities.

9.2.8 Examine different ways of delivering services to reduce costs.

9.2.9 Continued benchmarking and learning from best practice.

9.2.10 Consideration of growing the commercial property base to align delivery with Government funding priorities.

9.3 The above plans will require all service areas to play an active role in securing future savings and the Council will also continue to consult with all of its major stakeholders, especially the tax payers, to ensure all future budgetary decisions accord with their priorities.

9.4 During the summer, Leadership Team and services have been reviewing a range of budget options that could be considered in order to help mitigate that remaining budget shortfall across the five years of this MTFP. This also includes some possible additional costs that could arise. These Budget Options can be found in **Appendix 5** and will form the basis of the discussions with the Policy Development Groups (PDG's). In addition the PDG's will be asked to identify further options to resolve the immediate budget gap for 2022/23 and future years.

10.1 Clearly there is a very strong link between finance and corporate/service performance. By integrating the MTFP, the Work Force Plan and the Corporate Plan, the Council can demonstrate how it will afford to deliver its key objectives. This will also shape the ongoing priorities of the Council, as with finite resources it will need to decide on what its key priorities are.

11.1 The MTFP will continue to be updated on an annual basis. This will ensure that it will be a live document, subject to amendment and review by Leadership Team and Members and will provide a clear guide prior to commencing the annual budget setting process in future years.

12.1 Like all councils, Mid Devon is facing an ongoing and very challenging financial future. One of the many implications of the pandemic is the effect it will have on the Council's finances. The Corporate Plan will need to be aligned to available financial resources (which will include a regularly updated Work Force Plan) so that the District can be best placed to maximise cost effective delivery of its services that are valued by its residents.

12.2 It should also be noted that Management will continue to play a pro-active role in both reducing ongoing service costs and exploring new possibilities to raise additional income.

12.3 Having a realistic financial plan for the next five years will enable the Council to ensure it is allocating its limited financial resources to its key priorities. The current Corporate Plan sets out the Council's goals/objectives over a four year period and must clearly be matched by the financial resources that are available. The Government's move from a relatively fixed core funding system to more of a '*payment by results'* process has introduced a lot more uncertainty and volatility for the future of the Council's funding streams, which makes medium term financial planning an even more challenging process.

12.4 Like any strategic plan, the MTFP has been compiled based upon all available information at a fixed point in time. Clearly, as time moves on assumptions will change, Central Government will set new targets, bring in new legislation and adjust funding levels. The Council is aware that the Fair Funding Review may bring significant changes in its core funding including a full or partial Baseline reset in Business Rates. Residents expectations will change, Member priorities will alter and therefore any plans must be flexible enough to cope with major changes. As the Council is already in a period of major financial uncertainty, now compounded by Covid-19, it is not only prudent but imperative that it seeks to maintain its reserve levels to the fullest extent possible. Moving forward Members must be provided with regular updates on the financial impact of any variation to what has been previously assumed.

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