CABINET **AGENDA ITEM**
01 NOVEMBER 2022

MEDIUM TERM FINANCIAL PLAN – General Fund (GF), Housing Revenue Account (HRA) and Capital 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 2023/24 to 2027/28 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: That Cabinet Members:

1. **Note the updated MTFP's for the General Fund and Housing Revenue Account and the updated Capital Programme all covering the five years 2023/24 to 2027/28 and endorse the proposals outlined in paragraphs 5.6, 5.7 and 6.2 as the approach to balancing the General Fund Revenue Budget.**
2. **Seek recommendations from the Policy Development Groups on the appropriate fees for Services to charge and the services areas where savings should be sought and to what level.**

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 and the possibility of additional funding to offset the implications of the cost of living crisis. 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 2023 onwards.

2.1 The starting base for the MTFP is the 2022/23 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 cost of living and Covid-19 crises 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 and must only be considered as a last resort;

- 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, this floor may be revised in light of the financial position and likely risks, or 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 recent nationally prescribed referendum rate has been limited to a maximum of 2% or £5. This plan assumes that this 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. Consideration will also be given to whether the most appropriate funding mechanism is to fully utilise cash balances and undertake short-term borrowing to meet cash flow requirements. 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 As outlined above, the MTFP takes into consideration the current financial position against the 2022/23 base budget. There is significant pressure on the 2022/23 budget arising from the cost of living crisis. The Qtr1 forecast indicated an overspend of £258k on the General Fund, however since that time the initial Local Government Pay Award offer has been received and will increase that forecast substantially. Any overspend position will negatively affect reserve balances, which reduce the option to smooth this budget deficit over time.

3.2 The initial 2022/23 pay offer has been tabled and is being considered by the unions. This pay offer is significantly above that assumed in the 2022/23 base budget. The additional costs for the Council are forecast to be c£500k - £700k depending on the levels of staffing. To mitigate some of this cost, a soft recruitment freeze has been implemented. Where a role is required to maintain key service provision, for example a lifeguard or waste operative, these positions will be filled. However, where other posts become vacant, recruiting is being delayed/postposed to free up budget.

3.3 The significant increases in energy charges have also had an impact on the Council's finances. The new energy prices due to cover the year beginning 1 October 2022 are forecast to cost £350k - £375k more depending on our usage (subject to the impact of the energy cap). To mitigate this, the Council is considering options to reduce energy consumption. Examples include, lowering the heating temperature of our buildings and swimming pools. Isolating areas of buildings where heating can be switched off. Longer term plans include the use of the Salix grant to switch from Gas to renewable energies using ground and heat source pumps and increasing the volume of LED lighting.

3.4 At the beginning of the year fuel prices rose dramatically. Broadly speaking, the average price of a litre was £1.25 when the 2022/23 base budget was set. Prices rose to almost £1.75 per litre before stabilising and dropping back to about £1.60 per litre currently. The forecast addition cost of this increase is c£200k. The Council is already actively increasing the number of electric vehicles within our fleet, but is also ensuring routing is minimised within Waste Collection.

3.5 The sum of these additional pressures has added c.£1m to our cost base. Other mitigations include additional income from fees and charges. For example, we are able to sell our recyclate at higher rates than expected. Some services are experiencing greater take up, for example the Green Waste service, Planning and Car Parking.

3.6 Therefore, all options to limit costs where possible, including vacancy management processes and a review of fees and charges are being considered. However, pressures are so great that it's unlikely that this will be sufficient to compensate for the pressures the Council is seeing. Some combination of Government intervention and use of Reserves is almost inevitable.

4.1 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 2022/23;
- an international pandemic that has had an unprecedented impact on the Council in terms of its finances, its resources and ways in which it delivers its services. Service income in Leisure and Car Parking remains materially lower than pre-covid-19 levels. The national debt has risen to £2.4 Billion at the end of March 2022, 99.6% of GDP[1], which will need to be repaid indicating that austerity measures are likely to continue;
- the invasion of Ukraine which has significantly impacted the availability and therefore price of energy and fuel, leading to a cost of living crisis not seen since the early 1980's. It has required the reallocation of Council resources into supporting the Government with their Energy Rebate and Homes for Ukraine schemes;
- Political change at a national level leading to uncertainty and emergency policy decisions being taken that have unsettled the financial markets. Interest rates have soared over the course of the summer.

Yet the Council continues to deliver a wide range of well performing services.

4.2 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.

4.3 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:

[1] Office for National Statistics - UK government debt and deficit - Office for National Statistics (ons.gov.uk)

- Any changes in policies and legislation following the appointment of the new Prime Minister. One such change has been to scrap the recently implemented increase in National Insurance to fund the NHS and Social Care Reforms;

- The impact of the emergency "Mini Budget" and the "Medium Term Fiscal Plan" due to be announced on 31 October and their consequences for the Local Government Financial Settlement due in December;

- The ongoing impact of the Cost of Living crisis, the likely recession as a consequence and whether local government will receive any financial support;

- Changes to Central Government funding schemes such as Business Rate allocations/mechanics;

- Ongoing implications of Covid-19, particularly on service income from fees and charges;

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

4.4 Although Spending Review 2021 (SR21) covered the period 2022/23 to 2024/25, events since its publication are expected to render the contents almost irrelevant; the real terms growth of 9.4% across 2021/22 to 2024/25[2] is unlikely to be affordable despite reassurance from the Prime Minister that the Government is "absolutely not cutting public spending".

4.5 Following SR21, a 3-year financial settlement was expected, but only a one–year roll forward settlement was awarded. Many aspects of the government's reforms to the Local Government Finance system (first promised in 2016) were not resolved in time for April 2022 and the new Local Government Minister (Paul Scully MP) has confirmed at the recent Conservative Party Conference that it will not happen during this Spending Round. Therefore, the figures currently used to allocate local government funding will remain based on spending needs from 2013/14.

4.6 During this year's Local Government Association's (LGA) annual conference the then Secretary of State for Levelling Up, Housing and Communities (DLUHC) announced a two year settlement giving "certainty and confidence". Realistically, this can only be achieved through another roll forward of the current settlement. However, with a new Prime Minister and Secretary of State and financial uncertainty, it is questionable whether the two-year settlement will be possible. This clearly makes forecasting for future years very difficult.

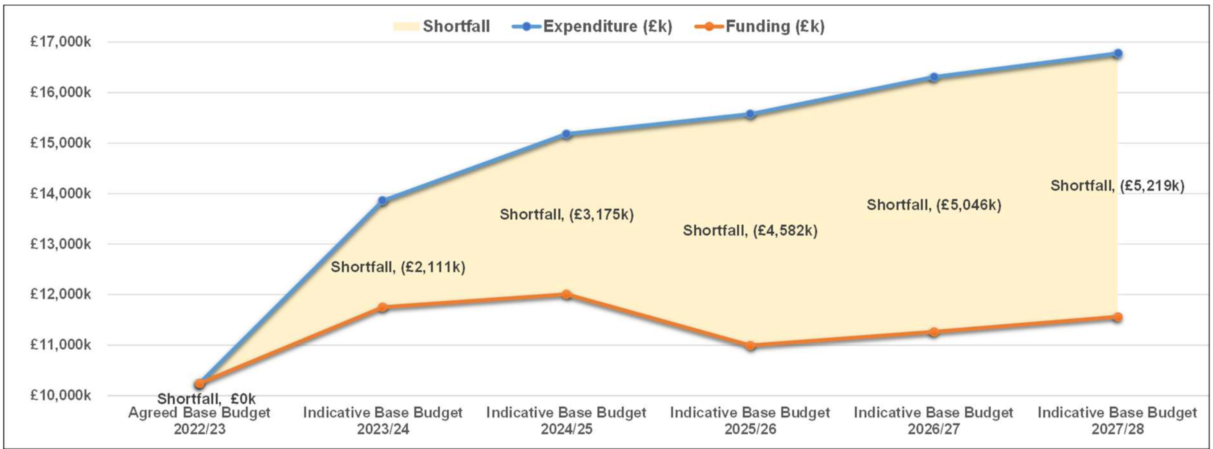
[2] Spending Review 2021 – Table 1.16 Departmental Budgets - Total DEL (TDEL) excluding depreciation
Autumn Budget and Spending Review 2021: A Stronger Economy for the British People (publishing.service.gov.uk)

5.1 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 £5,219k over the 5-year life of the plan, equivalent to approximately 35% of the current Net Service Cost.

Table 1 – MTFP General Fund Summary

2022/23		2023/24	2024/25	2025/26	2026/27	2027/28
£000		**£000**	**£000**	**£000**	**£000**	**£000**
10,240	Expenditure	13,863	15,182	15,575	16,309	16,780
(10,240)	Funding	(11,751)	(12,007)	(10,993)	(11,262)	(11,561)
0	**Annual Shortfall**	**2,111**	**1,063**	**1,408**	**464**	**173**
0	**Cumulative Shortfall**	**2,111**	**3,175**	**4,582**	**5,046**	**5,219**

Graph 1 – MTFP General Fund Cumulative Budget Gap 2022/23 to 2027/28



5.2 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 (the annual shortfall). 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 £5,219k. At present the General Fund reserve of £2,215k would be insufficient to absorb the deficits over this period, although is sufficient to cover any individual year's shortfall.

5.3 The majority of this cumulative deficit impacts during years one to three largely due to the cost of living crisis during years one and two based on the expected relatively quick economic recovery, and year three based on assumed reductions in funding across Business Rates and Government Grants after years of delays.

5.4 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. 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.

5.5 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 short-term use of reserves. Members therefore need to take the necessary decisions and actions to manage net spending within affordable limits.

5.6 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 with a view to identifying a net £1m saving in both 2023/24 and 2024/25. Indicative areas where possible budget savings could be found are shown in **Appendix 3** 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 2023/24 and future years.

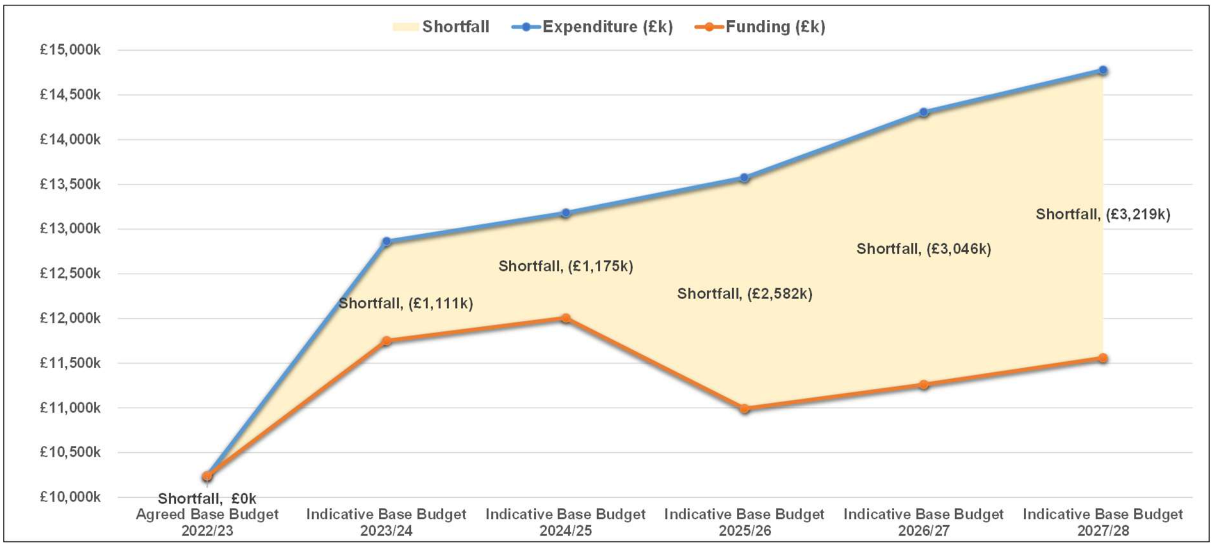
5.7 Part of that saving could come from increasing income from Service Fees and Charges. In many cases, these have not been increased for up to three years in order to promote the recovery from Covid-19. However, during that timeframe costs have increased, for example general inflation has increased prices by nearly 16% since April 2019. Therefore Service Fees and Charges will be reviewed to ensure they cover the cost of the service provided and where possible any new proposed fees will be implemented as soon as possible to assist the in-year shortfall. The views and recommendations from the Policy Development Groups will also be sought in setting Service Fees and Charges based upon options provided within Part 2 reports to lead members through current considerations.

5.8 Based upon delivering £1m savings in both 2023/24 and 2024/25, the forecast MTFP position improves as shown in Table 2 below.

Table 2 – Revised – MTFP General Fund Summary

	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	£000	**£000**	**£000**	**£000**	**£000**
Initial Annual Shortfall	**2,111**	**1,063**	**1,408**	**464**	**173**
Assumed Savings	**(1,000)**	**(1,000)**	**0**	**0**	**0**
Revised Annual Shortfall	**1,111**	**63**	**1,408**	**464**	**173**
Cumulative Shortfall	**1,111**	**1,174**	**2,582**	**3,046**	**3,219**

Graph 2 – Revised MTFP General Fund Cumulative Budget Gap 2022/23 to 2027/28



5.9 Clearly there remains a significant budget shortfall in 2023/24 even if the £1m is identified and delivered. Therefore, all possible options to increase income or reduce costs must be considered. Options will be brought forward for consideration over the next few months in the run in to setting the 2023/24 budget in February 2023.

6.1 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.

6.2 In order to reduce the forecast deficit the Council will strive to constantly manage its costs and revenues by:

- Ensure fees/charges are revisited regularly and that the Council are charging appropriately for all items possible.
- A continued reduction of service and employee costs – which may incur short term upfront costs.
- Continue and expand partnership working where practical.
- Investigation of a number of spend to save projects.
- Review the current and future property asset requirements.
- Maximise procurement efficiencies.
- Explore new commercial opportunities.

- Examine different ways of delivering services to reduce costs.

- Continued benchmarking and learning from best practice.

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

6.3 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.

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

6.5 The level of uncertainty in funding and external pressures as outlined in Section 7 makes forecasting difficult and with it a need to highlight risks and the need to push for further efficiencies within services.

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

7.1.1 **Future Local Government Funding** – the Council awaits to hear whether the announced government spending limits over the years 2023/24 and 2024/25 remain valid given the current economic circumstances. Whatever the spending limits are, these then need to be translated into individual Council funding. These will be dependent upon the Governments views on the long term funding requirement and allocation mechanism. Therefore, it is critical that we continue to lobby for the Fair Funding Review and holistic review of Business Rates to be completed fully as soon as possible, along with the implementation of any replacement of the New Homes Bonus Scheme.

7.1.2 **Local Government Finance Settlement (LGFS)** – the Council await the Provisional Settlement expected to be announced in December, potentially covering 2023/24 and 2024/25. The previous multi-year settlement expired in 2019/20 and for the last three 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 2023/24 budget setting.

7.1.3 **Cost of Living Crisis / Inflation** – As highlighted previously in this report, the cost of living crisis is having a significant impact upon the Council's finances. To dates, little has been done to help Council's deal with the current implications. It is hoped that some ongoing support / mitigation is included within the 2023/24 funding settlement.

To combat high inflation, the Bank of England Base Rate is increased to reduce spending levels. Whilst this provides a greater return on our investments, this has a significant impact on the interest rates the Council is able to borrow at. With the significant growth in the Capital Programme primarily to deliver additional homes across the district, additional borrowing will be required. This is likely to reduce / slow the deliverability of such projects.

7.1.4 **Council Tax** – The MTFP is based on the assumption of a maximum 2% 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

7.1.5 **Council Tax Base** – The 2022/23 budget assumed a recovery in the collection rate, which is not currently being achieved. This MTFP must consider the impact of the cost of living on collection rates and therefore forecasts it to be prudent to reduce as was the case during the Covid-19 pandemic. Recovery can be estimated back to the normal 98% by 2025/26. Future long term growth relies on the large scale infrastructure projects such as J28, Tiverton Eastern Urban Extension and Culm Garden Village.

7.1.6 **100% Business Rates Retention / Revaluation** – 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 no changes to be brought in before 2025/26. 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.

The next revaluation of properties for Business Rates will take effect from 1 April 2023 based on the rental market at 1 April 2021. During the summer, the Government consulted upon options for transitional arrangements. It is assumed that the Council's income will not be impacted by the Revaluation, or will be smoothed with transitional support. This might not be the case.

7.1.7 **Levelling up Fund** – At present, the Council is awaiting the outcome of its second bid for substantial funding to support the Cullompton HIF Project. Should the bid not be successful, plans to deliver the major infrastructure project 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.

7.1.8 **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” appear to signal a step change in behaviour and a permanent reduction to income levels.

7.2 Other Uncertainties:

7.2.1 **Homes for Ukraine Scheme** – Part of the national support to the Ukraine is to offer safe housing for those escaping the conflict. Additional funding is being received to support the scheme. However, the first minimum period of six months accommodation will soon end and it is not clear whether there will be options to relocate families to other hosts or to private landlords. Therefore there is a risk that some of those initially covered by the scheme could present as homeless and require the Council to house them. Less, if any, associated funding will be available to cover those additional costs.

7.2.2 **Inflation** –rates have increased rapidly over the last 18 months reaching levels not seen since the late 1970’s / early 1980’s. Initially this was caused by the Covid-19 measures taken in 2020 by the Government, such as Eat Out to Help Out and the reduction in VAT. In recent months, the conflict in Ukraine has caused energy and fuel prices to increase significantly. The Bank of England and the Government’s “Mini Budget” have taken steps to limit the impact of inflation and it is currently expected that inflation will be back in line with the Government’s 2% target within 2-3 years. This is critical for the Council as it will feed into 3rd party contract prices and pay inflation.

7.3 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.

8.1 The Council should look to match on-going spending plans to available in-year resources. However, it currently holds an uncommitted General Fund Reserve with a balance of £2,215k, which is above the current balance of £2m set by Full Council.

8.2 The 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 affect 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.

8.3 As stated above, this plan does not include any utilisation of these reserves. However, with the scale of the deficit, 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.

8.4 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 and government requirements to spread the impact of Collection Fund losses over a three-year period. Therefore we will see these unwinding and being utilised over the current year and future years. Although these reserves are ring-fenced and not available to support the budget, 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.

9.1 The Overall Capital Programme will include new bids for capital funding to support new programmes as well as 'rolling' approvals from current and prior year's Capital Programmes. However, at this point in the process, there is no inclusion of current approvals or slippage within this Capital MTFP projection; this is purely new bids or bids seeking additional funding to supplement the current approval.

9.2 A forecast of the expenditure within the current approved programme will be brought to February budget setting with final approval sought to carry forward the approval at Outturn. However, as at Quarter 1 of the current Financial Year, the total of current approvals planned to start between 2023/24 to 2026/27 were:

Table 3 – Current Future Capital Approvals

	2023/24	2024/25	2025/26	2026/27	Total
General Fund	£29,995k	£536k	£0k	£0k	**£30,531k**
HRA	£7,192k	£3,444k	£315k	£0k	**£10,951k**
Total	**£37,187k**	**£3,980k**	**£315k**	**£0**	**£41,482k**

9.3 Therefore all schemes included within this Capital MTFP 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.

9.4 Table 4 below, shows the forecast capital funding position during the life of the MTFP. This is based upon limited information on the sources of potential funding, particularly in late years. Therefore at this time, the overarching assumption is any unfunded element of the programme is covered through external borrowing. This will be refined and updated as we move through the MTFP timeframe. A more detailed analysis of the overall schemes and potential funding is attached as **Appendix 4**.

Table 4 – Projected Capital Approvals

	2023/24	2024/25	2025/26	2026/27	2027/28	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
General Fund:						
New Bids	**20,814**	**7,440**	**1,870**	**1,600**	**1,165**	**32,889**
Funded by:						
Revenue / Receipts / Grant Funding	(19,519)	(2,760)	(860)	(1,312)	(655)	**25,106**
PWLB Borrowing (varying years)	(1,29)	(4,680)	(1,010)	(288)	(510)	**7,783**
Total Funding	**(20,814)**	**(7,440)**	**(1,870)**	**(1,600)**	**(1,165)**	**(32,889)**
Housing Revenue Account:						
New Bids	**61,839**	**9,135**	**16,060**	**3,285**	**2,770**	**93,089**
Funded by:						
Revenue / Receipts / Grant Funding	(23,705)	(5,674)	(9,616)	(3,285)	(2,770)	**45,050**
PWLB Borrowing (50 Years)	(38,134)	(3,461)	(6,444)	(0)	(0)	**48,039**
Total Funding	**(61,839)**	**(9,135)**	**(16,060)**	**(3,285)**	**(2,770)**	**(93,089)**
Overall Capital Requirement	**82,653**	**16,575**	**17,930**	**4,885**	**3,935**	**125,978**
Overall Existing / Grant Funds	**(43,224)**	**(8,434)**	**(10,476)**	**(4,597)**	**(3,425)**	**(70,156)**
Overall PWLB Borrowing	**(39,429)**	**(8,141)**	**(7,454)**	**(288)**	**(510)**	**(55,822)**

The spend profile of these bids is as follows:

	2023/24	2024/25	2025/26	2026/27	2027/28	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
General Fund	4,173	22,396	3,555	1,600	1,165	**32,889**
HRA	14,213	28,528	24,333	22,885	3,130	**93,089**
Total	**18,386**	**50,924**	**27,888**	**24,485**	**4,295**	**125,978**

9.5 Expenditure

9.5.1 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, the current programme will also need to be reflected.

9.5.2 The draft Capital Programme will be reviewed/challenged by the Capital Strategy Asset Group (CSAG) prior to the proposed final programme being brought forward for approval in February.

9.5.3 As highlighted in the 2022/23 Capital MTFP, there is a marked increase in the borrowing requirement over the duration of the MTFP from recent years. This is largely due to a significant plan to increase the HRA Housing stock. At present, we await the latest Business Plan from 3Rivers. Once approved, the associated financial implications will be incorporated into the programme.

9.5.4 Generally, the bids are restricted to replacement equipment, largely based upon health and safety requirements in the leisure centres, new ICT kit or invest to save bids. A bid is included that will help the Council deliver its commitment to climate change and reducing carbon emissions. It is anticipated that external funding will fund these bids, but if the Council is unsuccessful in bidding for such funding, undertaking borrowing could be considered.

9.5.5 Similarly, there is an assumption that the Cullompton Housing Infrastructure Funded (HIF) project will be fully funded from various government grants including the current levelling up bid. Funding was been received to cover the initial projected estimated cost of the projects, however, costs have dramatically increased since that funding was received. Should the bid be unsuccessful a second time, consideration would need to be given to alternative sources of funding, or indeed whether the project is stopped. The Tiverton project has been removed from the future programme following the decision by Cabinet.

9.5.6 All capital projects are subject to a full appraisal.

9.6 Funding

9.6.1 The available capital 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 any borrowing requirement.

9.6.2 Currently any revenue contribution to the Capital Programme is limited to funding held within Earmarked Reserves (i.e. Sinking Funds). No additional use of the New Homes Bonus grant is planned to fund elements of the Capital Programme. However, as previously stated, the current New Homes Bonus scheme was due to cease in 2022/23 and a replacement scheme is expected, but is yet to be announced. Ultimately, any outstanding funding requirement after utilising revenue contributions, reserves and any external funding sources will need to be funded through Prudential Borrowing.

9.6.3 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 against new additional housing at 40% or 45% respectively; although a substantial element of the cost remains with the Council.

9.6.4 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. One option would be to reduce that minimum cash balance of £10m and meet and shortfall in cash flow through short-term borrowing. This is the cheapest form of borrowing in the current economic conditions. This option will be considered and developed in time for the February budget setting.

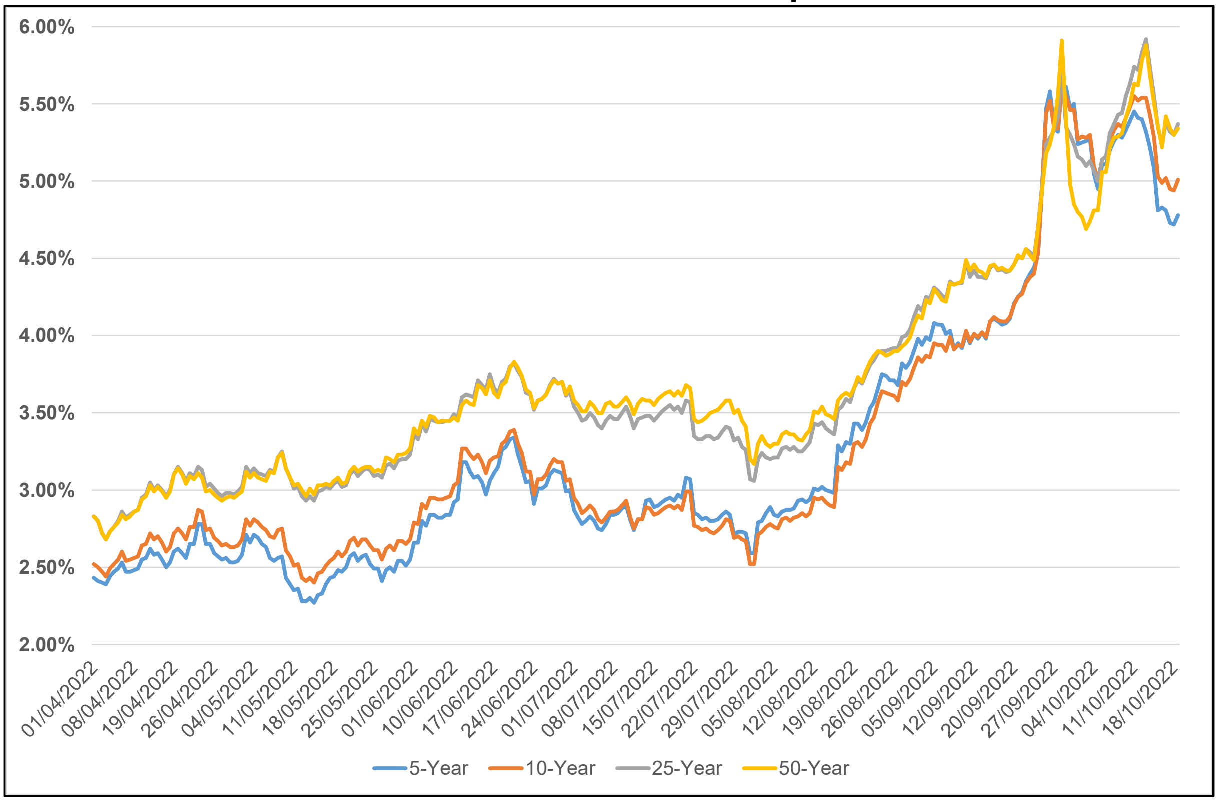
9.6.5 However, given the scale of the proposed Capital Programme, internal borrowing will not be sufficient to fund all bids. To minimise the increase in inflation, the Bank of England has increased the Bank Rate from the historic low of 0.1% to 2.25%[3] currently. Further increases are expected over the next year as shown in the table below:

Figure 1: Forecast Interest Rates increases from our Treasury Advisor[4]:

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

9.6.6 The increases in PWLB interest rates has been heightened by the financial markets reaction to the Government's "Mini Budget". There has been significant volatility in the rates since that announcement and it is only likely to calm/settle once the Chancellor announces his "Medium Term Fiscal Plan" due to be announced on 31 October. Chart 2 below shows the movement in PWLB interest rates since April 2022.

Chart 2 – Movement in PWLB Interest Rates since April 2022



9.6.7 This will add substantial interest charges on borrowing compared to recent levels. For example, 50-year annuity borrowing as at 18 October 2022 was 5.34% (excluding the certainty rate discount). The equivalent rate on 18 October

[3] At the time of writing the report

[4] Latest update from our Treasury Advisor (Link Group.

2021 was 2.42%[5]. For each 1%, the additional cost is c£8k per annum, or for each additional £1m borrowing requirement the additional cost is c£40k per annum and is expected to increase over the coming months/year. Therefore, the Council will need to carefully consider how best to fund the capital funding requirements.

10.1 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).

10.2 The draft HRA MTFP for 2023/24 to 2027/28 is summarised below, with greater detail included within **Appendix 5**.

2022/23		**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
£000		**£000**	**£000**	**£000**	**£000**	**£000**
7,722	Direct Expenditure	8,497	8,814	9,084	9,413	9,704
(13,456)	External Income	(14,064)	(14,826)	(15,674)	(16,410)	(17,182)
(5,734)	**Net Cost Of Services**	**(5,567)**	**(6,012)**	**(6,591)**	**(6,996)**	**(7,478)**
981	Capital Financing Costs	1,010	1,191	1,338	1,748	2,151
925	Interest Payable	1,178	1,855	2,573	3,092	3,256
3,828	Indirect Expenditure	3,640	3,728	3,598	3,669	3,602
0	**Budget (Surplus) / Deficit**	**261**	**762**	**919**	**1,512**	**1,531**
0	**Cumulative (Surplus) / Deficit**	**261**	**1,023**	**1,942**	**3,454**	**4,985**

10.3 As per the General Fund budget, the cost of living is having a substantial impact to the HRA. The proposed pay award is impacting in 2023/24 and the increase in interest rates is impacting on the forecast financing costs for the planned build programme to add/update the housing stock. Given the forecast increases in interest rates, this situation might worsen further than our prudent estimates.

10.4 Work is underway to assess the various options open to the HRA to enable it to continue with some development of new/replacement housing stock within an affordable envelopment. However with interest rates at current levels or above, some rationalisation of the ambition will be necessary. Options being considered include:

- Funding options – including use of the Housing Maintenance Fund (HMF);
- Reduced development of new/replacement units;
- Delaying development of new/replacement units until interest rates fall;
- Revise the mix of Social and Affordable units set against Government rent levels;
- Review the quality of the units;
- Focus of those sites that deliver the best value for money;

[5] Historical Interest Rates (dmo.gov.uk)

- Consider developing only new units, not replacement until interest rates fall back.

10.5 The same broad assumptions applied to the General Fund across pay and pensions, utilities and fuel increases have also been applied to the HRA. **Appendix 1** of this report shows the sensitivity analysis on key items in the plan if assumptions were to change. In addition, provision has been made for specific investments, for example it is proposed to create a fund to increase the number of apprentices.

10.6 On the income side, the government have recently consulted on capping the increase applicable to social rents. For rent periods from 1 April 2023 to 31 March 2024, the CPI plus 1 percentage point limit on annual rent increases is subject to a 5% ‘ceiling’. Therefore, an assumption has been made to apply the 5% cap as this is highly likely to be the maximum rate allowable. This is however, less than the HRA cost pressures will be increasing over the same period. Future year’s rental uplifts are assumed to pair back from this value, to 3% which is felt to be appropriately prudent.

10.7 Recognising that this adds to the pressures of our tenants, it is proposed to re-increase the provision for bad debts by £100k in 2023/24, as was the case when Covid-19 first arose. That increase is fully reversed in 2025/26 as debts recover to pre-Covid-19 / cost of living crisis levels fall, but again a prudent assumption has been applied at this time.

10.8 Further mitigations to the difference between our cost increases and our income cap include a prudent assumption over the 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. However, this might increase if development of new units continues as planned. We are also working to reduce the void turnaround times meaning that less properties sit empty at any one time, thus generating no rent.

10.9 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 the future when we may have more economic certainty.

10.10 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. This plan is being reviewed to clarify how much HMF is required, and therefore if any can potentially be used to support the development programme.

10.11 The combination of inflating expenditure more than income, along with the consequence of the significant capital investment leaves no assumed value to be transferred to the HMF across the MTFP period. All years forecast a deficit and therefore draw on the HMF at this time. However, the HMF currently holds nearly £15.9m, but in order for this to avoid reducing too far, savings or further income generation proposals will need to be identified.

11.1 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.

12.1 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.

13.1 Like all councils, Mid Devon is facing an ongoing and very challenging financial future. 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.

13.2 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.

13.3 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.

13.4 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, in time, 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, it is not only prudent but imperative that it seeks to maintain its reserve levels to the fullest extent possible. Moving forward Members will be provided with regular updates on the financial impact of any variation to what has been previously assumed.

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