

MEDIUM TERM FINANCIAL PLAN – Options

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 to discuss initial options for cost savings or income generation.

RECOMMENDATION: That PDG Members review the options included within the Part 2 Appendices and recommend to Cabinet the way forwards, noting that if the committee doesn't support any options, alternative suggestions should be made.

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.

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

1.3.1 Principal 1 – General Fund Reserves

- 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.

1.3.2 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).

1.3.3 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.

1.3.4 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.

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

2.1 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 GDP¹, 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.

2.2 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, but can be summarised as follows:

- 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.

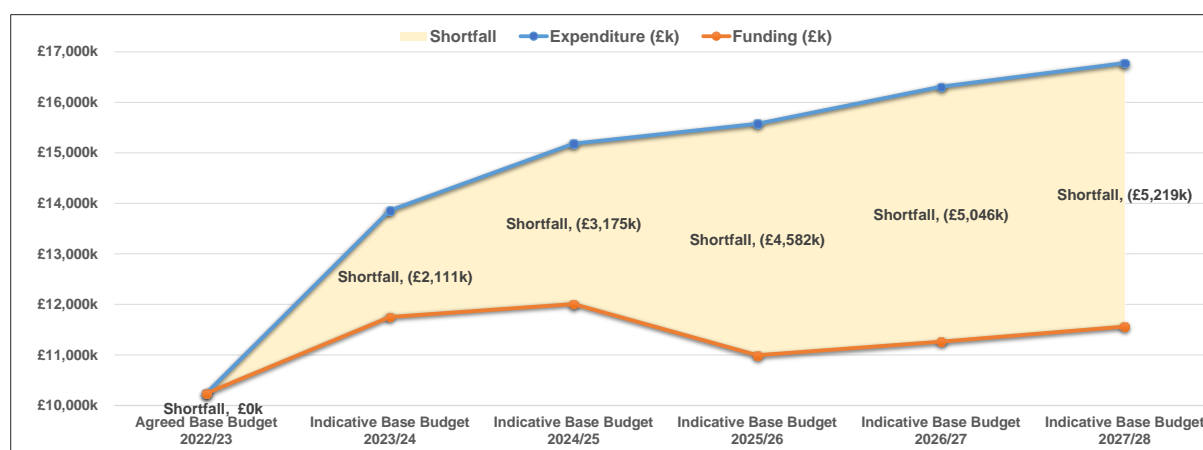
¹ Office for National Statistics - [UK government debt and deficit - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/government/collecting-evidence-on-the-economy-and-society/government-debt-and-deficit)

2.3 Table 1 and the associated graph shown below, gives a summary position for the MTFP over the next five years. 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. To enable a better understanding of the individual Net Service Costs, **Appendix 1** breaks down the budget by service unit.

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



2.4 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 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 2** and will form the basis of the discussions with a view to the Policy Development Groups (PDG's) making recommendations to Cabinet. In addition the PDG's are asked to identify further options to resolve the immediate budget gap for 2023/24 and future years.

2.5 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 16.5% since April 2019. Therefore Service Fees and Charges are being 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. Various options and recommendations for Service Fees and Charges are set out in the remaining Appendices with a

view to the Policy Development Groups (PDG's) making recommendations to Cabinet. In addition the PDG's are asked to identify further options to resolve the immediate budget gap for 2023/24 and future years.

- 2.6 Clearly there remains a significant budget shortfall in 2023/24 even if the £1m is identified and delivered and revised Service Fees and Charges are implemented. Therefore, all possible options to increase income or reduce costs must be considered, hence the importance of PDG's offering recommendation for new/alternative options. This could include identifying new fees and charges or options to generate income, or identifying service savings / reductions – which may incur short term upfront costs.
- 2.7 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.
- 3.1 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.
- 4.1 Like all councils, Mid Devon is facing an ongoing and very challenging financial future. 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. Moving forward Members will be provided with regular updates on the financial impact of any variation to what has been previously assumed.
- 4.2 It should also be noted that the PDGs will continue to play a pro-active role in both reducing ongoing service costs and exploring new possibilities to raise additional income. 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.

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