Mid Devon
DISTRICT COUNCIL

Report for:	**Homes Policy Development Group**
Date of Meeting:	26 September 2023
Subject:	Medium Term Financial Plan – General Fund (GF) and Housing Revenue Account (HRA)
Cabinet Member:	James Buczkowski – Cabinet Member for Finance Simon Clist – Deputy Leader & Cabinet Member for Housing & Property Services
Responsible Officer:	Andrew Jarrett – Deputy Chief Executive (S151) Simon Newcombe – Corporate Manager for Public Health, Regulation and Housing
Exempt:	N/a
Wards Affected:	All
Enclosures:	Appendix 1 – General Fund MTFP Summary Position Appendix 2 – Housing Revenue Account MTFP Summary Position Appendix 3 - Housing Revenue Account Savings Options

Section 1 – Summary and Recommendation(s)

To present to Members the updated Medium Term Financial Plan (MTFP) which covers the period 2024/25 to 2028/29 for both the General Fund (GF) and Housing Revenue Account (HRA) and consider initial savings options.

Recommendation(s):

That the Policy Development Group Members:

1. **Note the updated MTFP's for the General Fund and Housing Revenue Account covering the years 2024/25 to 2028/29**
2. **Consider the options included within the Appendix 3 and recommend to Cabinet the way forwards, noting that if the committee doesn't support any options, alternative suggestions should be made.**

Section 2 – Report

1.0 Introduction and purpose of the Medium Term Financial Plan (MTFP)

1.1 This report summarises the report to Cabinet on 19 September outlining the MTFP position for the General Fund (GF) and introduces the MTFP position for the Housing Revenue Account (HRA). Members are encouraged to read that Cabinet report in full to provide greater understanding of the overarching financial position.

1.2 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).

1.3 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. This will importantly need to take account of the new council administration in their emerging corporate plan ambitions.

1.4 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.

1.5 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.

2.0 Framework for the Medium Term Financial Plan

2.1 The starting base for an MTFP is the 2023/24 approved budget, which is then adjusted for any supplementary estimates approved by the Council or any significant budget variances identified in the 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. Specifically for the HRA forecasts are also made around Tenant Rent charges.

2.4 Note however, at this time, the financing requirement included reflects the 2023/24 Capital MTFP as it is currently being refreshed. The update will be brought back to Cabinet later in the budget cycle. This is particularly relevant for the HRA given the scale of the ambitious development programme. Furthermore, the MTFP should be recognised as a high level estimate of the financial position – it is not a projected based upon a line-by-line review of costs / income.

2.5 The MTFP models an overall aggregated position for the GF or HRA 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 or changed. 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 Crisis will have implications, not only for the current year, but also for the years to come.

2.6 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.

3.0 Background to the Medium Term Financial Plan

3.1 Given this is a new administration, Members should be aware that this MTFP has been developed against a backdrop of:

- Austerity – an aggregate cut in Central Government Grant of c£5m during the austerity measures put in place since 2010/11 and been replaced with lower levels of more volatile funding sources e.g. New Homes Bonus, Business Rates and numerous one-off grants. In addition certain funding streams have also been capped, such as Tenant Rent increases;

- Covid-19 – service income through fees and charges in some areas is only just recovering to pre-covid-19 levels, i.e. Leisure and Car Parking;

- The invasion of Ukraine significantly impacted the availability and therefore price of energy and fuel, leading to A Cost of Living Crisis not seen since the early 1980s. It has required the reallocation of Council resources into supporting the Government with their Energy Rebate and Homes for Ukraine schemes and is impacting budgets through high pay and price inflation;

- Locally, resources previously realigned to manage the Government's response to the Pandemic and Cost of Living Crisis are again only just returning to their substantive roles;

- Nationally, the cost of the Pandemic and Cost of Living Crisis has been significant, with the government's gross debt being £2.537bn (100.5% of GDP) with the net borrowing £24.4bn[1]. This indicates that austerity measures are likely to continue;

- 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 to combat the high inflation as is now expected to reduce at a slower rate.

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

4.0 Summary of the Medium Term Financial Plan

4.1 There is significant pressure on the GF arising from the decisions taken to balance the 2023/24 budget, namely the £400k staffing vacancy target and the £625k draw from reserves. The assumption is that these are not rolled forward into 2024/25. However, despite this in-year £1,025k challenge, the Qtr. 1 forecast indicated an over spend of £527k on the General Fund, indicating that £498k has been offset, albeit not all through ongoing savings measures. Any overspend position will negatively affect reserve balances, which reduce the option to smooth this budget deficit over time.

4.2 There are also a range of other pressures falling on the both budgets (GF & HRA), including, but not restricted to, the following:

- The Cost of Living Crisis with high inflation affecting pay and material prices for all services. The 2024/25 assumed pay award is an increase of 4% - adding a pressure of circa £700k to the GF budget and £150k to the HRA.

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

- Also, possibly more so for the HRA, the Cost of Living Crisis will put pressure on household budgets meaning an increased risk in tenants not paying rent. Government may restrict rent increase which could increase by CPI inflation plus 1%. Therefore a prudent 3% assumption has been made for rent increases and additional provision has been made to account for the collection risk.

- Many services are experiencing high staff turnover and sickness levels requiring additional temporary staff being employed to keep key services such as waste collection operational. To mitigate this pressure and deliver the £400k staffing vacancy target within the GF, 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 / postponed to free up budget. Inevitably, this does impact on the quality and speed of service delivery, and this is mitigated as far as possible. Although the position is being monitored closely within the HRA, no recruitment freeze is required at this time.

- The significant increases in energy charges have also had an impact on the Council's finances. The Cabinet recently agreed to extend the current provider (Laser) and increase the proportion of Electricity purchased from 100% renewable sources. It is currently too early to receive the new energy prices due to cover the year beginning 1 October 2023, therefore the forecast remains as previously projected, although the energy cap has reduced since that forecast, potentially leading to a saving for the Council from the assumed circa £400k GF pressure. This is less relevant to the HRA as it has less energy consumption. However, over time with the use of more electric vehicles, there will be a move away from fossil fuel to electricity.

- There are also regulatory requirements to fulfil such as Fire Safety, decarbonisation and increased the use of renewable energy. Specifically for the HRA the removal of damp and mould and increased tenant satisfaction measures and complaints mechanisms will impact on the budget. However, at present, the Government have enabled HRAs to retain all receipts from Right to buy sales in 2022/23 and 2023/24, have created a preferential borrowing rate 40 basis points lower than the normal rate available through the PWLB, but capped Tenant Rent increases to 7% in 2023/24 and are expected to again cap the increase in 2024/25.

- Lastly, there is the pressure to invest in and increase the overall Housing Stock with high quality homes. Maintaining our existing homes, many of which are older and inefficient, while meeting the increasingly urgent need to build new homes at scale and pace, against a backdrop of rent caps and high operating costs is making balancing the books challenging. Updates to the capital programme and financing assumptions surrounding the planned development of 500 units will adjust the current projected position over the autumn.

4.3 In summary, the forecast GF shortfall for 2024/25 can be attributed to the removal of the one-off targets included within the 2023/24 budget, plus the assumed inflationary uplift driven by the Cost of Living Crisis. The sum of these pressures has added c. £2.1m to our cost base. The longer term shortfall (rising to £5.2m) is largely due to inflation and the assumptions around reduced government funding.

4.4 The HRA position for 2024/25 is more manageable with a projected shortfall of £205k rising to £3,081k by 2028/29, largely due to inflation, the financing cost of the development programme and the regulatory pressures upon the service.

4.5 This is clearly a challenge built 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 MTFPs 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.

4.6 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.

5.0 Approach to closing the Budget Gap

5.1 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 residential and commercial property base to align delivery with Government funding priorities.

5.2 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 and tenants, to ensure all future budgetary decisions accord with their priorities.

5.3 During the summer, services have been reviewing a range of budget options that could be considered in order to help mitigate the 2024/25 budget shortfall. Those relevant to this Policy Development Group (PDG) are included within **Appendix 3**. The views of this PDG on where any possible budget savings could be found to resolve the immediate budget gap for 2024/25 and future years will form the basis of the discussions with a view to the PDG making recommendations to Cabinet.

5.4 Members will appreciate that all budget options will require political support and therefore if some suggestions are deemed to be unacceptable then other savings will need to be proposed. Members should indicate where these alternatives should be sought.

6.0 Balances and Reserves

6.1 The Council should look to match on-going spending plans to available in-year resources. It currently holds an uncommitted General Fund Reserve with a balance of £2,025k, which is above the current balance of £2m set by Full Council. However, this will be impacted by the outturn position of 2023/24 and the degree to which the £1,025k in-year target cannot be mitigated, which is projected to reduce to £527k. This will only leave £1,498k in the reserve and will need to be replenished over the lifetime of this MTFP. Similarly for the HRA, there is an uncommitted Reserve for £2m.

6.2 The Council holds these reserves 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.

6.3 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.

6.4 The Council also holds Earmarked Reserves, for both the GF and HRA – both circa £20m, which have been set aside for a specific purpose, such as sinking funds for asset replacement. Although these reserves are ring-fenced and should not to support ongoing expenditure within 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 only delay the requirement for the identification and implementation of a sustainable saving.

7.0 Conclusion

7.1 The MTFP will continue to be updated to ensure it is a live document. It is 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.

7.2 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.

7.3 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 2024/25 budget in February 2024.

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.

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.

Impact on Climate Change

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.

Equalities Impact Assessment

No implications arising from this report.

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.

Section 3 – Statutory Officer sign-off/mandatory checks

Statutory Officer: Andrew Jarrett
Agreed by or on behalf of the Section 151
Date: 18 September 2023

Statutory Officer: Maria De Leiburne
Agreed on behalf of the Monitoring Officer
Date: 18 September 2023

Chief Officer: Stephen Walford
Agreed by or on behalf of the Chief Executive/Corporate Director
Date: 18 September 2023

Performance and risk: Dr Steve Carr
Agreed on behalf of the Corporate Performance & Improvement Manager
Date: 18 September 2023

Cabinet member notified: Yes

Section 4 - Contact Details and Background Papers

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Background papers:

- 2024/25 Medium Term Financial Plan report to Cabinet 19 September 2023