

Report for: Cabinet

Date of Meeting:	12 December 2023
Subject:	2024/25 – 2028/29 Medium Term Financial Plan Update
Cabinet Member:	James Buczkowski – Cabinet Member for Finance
Responsible Officer:	Andrew Jarrett – Deputy Chief Executive (S151)
Exempt:	N/a
Wards Affected:	All
Enclosures:	Appendix 1 – Budget Options Round 1 Update Appendix 2 – Budget Options Round 2 for consideration Appendix 3 – Budget Summary by Service Appendix 4 – Movement in Earmarked Reserves Appendix 5 – HRA Summary Position Appendix 6 – Capital Programme

Section 1 – Summary and Recommendation(s)

To present to Member's the updated Medium Term Financial Plan (MTFP) which covers the period 2024/25 to 2028/29 and potential savings options for consideration / approval.

Recommendation(s):

That Cabinet Members:

- 1. Note the updated MTFP's for the General Fund, Housing Revenue Account and Capital Programme covering the years 2024/25 to 2028/29**
- 2. Consider and agree the revisions to the savings options within Appendix 1.**
- 3. Consider and agree the savings options within Appendix 2.**
- 4. Consider any additional suggestions to balance the remaining shortfall and request that the Policy Development Groups identify further savings option and recommend back to Cabinet for approval.**

Section 2 – Report

1.0 Introduction and purpose of the Medium Term Financial Plan

- 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. This will importantly need to take account of the new council administration in their emerging corporate plan ambitions
- 1.2 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.

2.0 2024/25 – 2028/29 Budget – Updated Forecast

2.1 General Fund

- On 19 September, the first draft MTFP covering the period 2024/25 to 2028/29 for the General Fund was presented to Cabinet. This estimated a funding shortfall of £2,103k in 2024/25 rising to £5,206k by 2028/29. This is largely driven by inflation and assumptions around further cuts in grant funding based upon a number of assumptions and the most up to date information available at this time.
- On 17 October, the forecast position was updated and savings options totalling £1,337k were presented for approval. If all the savings options were implemented, this gave a reduced forecast shortfall for 2024/25 of £765k, with the full 5-year shortfall reduced to £3,868k. Since then, work has continued to review and refine the savings to ensure that they are deliverable and the impacts are mitigated as far as possible.
- This report provides the update on that review and introduces new savings options that further reduce the outstanding shortfall. These new / revised savings options will be considered by the various Policy Development Groups (PDG's) and Scrutiny Committee during the January suite of meetings. In addition the PDG's will be asked to identify further options to resolve the immediate budget gap for 2024/25 and future years.
- The updated position reported to October Cabinet has improved through the further detailed review and challenge of budgets based upon the Qtr 2 in-year monitoring forecast, which indicates some substantial savings in some service areas. These savings not only help offset the 2023/24 savings target of £1,025k, but helps going forwards where the variation is on-going.

2.2 Housing Revenue Account

- The HRA forecast position for 2024/25 presented to the Homes PDG in September indicates a more manageable position 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.
- Once again, further work has been undertaken to review and refine that forecast. An update on the latest housing development plans, and the likely level of rent required will be reviewed and finalised at the January Homes PDG and recommended to Cabinet.

2.3 Capital Programme

- The initial draft Capital Programme is introduced through this report. It will undergo further review and challenge over the period before the next Cabinet meeting in January, therefore this should be considered as draft and will be subject to appropriate business cases and funding available
- The Council's priority areas for investment can be summarised as:
 - **Asset replacement and/or enhancement:** The services delivered by the Council depend upon a variety of assets such as computers, equipment or vehicles. These need to be updated/upgraded on a regular basis to ensure service delivery is maintained or enhanced. Asset maintenance is a revenue cost; the purchase or enhancement is a capital cost.
 - **Income Generation:** The Council is looking to identify investments that generate an income to replace the lost grant funding and ease the pressure on the Revenue Budget. Specific projects / investment opportunities will be brought forward for approval by the Cabinet as they are identified.
 - **Economic Regeneration:** The Council is committed to investing in the District's future through regeneration projects. Any schemes will need to be self-financing so that borrowing costs are covered by either Grant, investment income or capital receipts, so that there is no impact on the Council's revenue budget.
 - **Invest to save:** The Council is always looking for opportunities to deliver future efficiencies in service provision, known as 'Invest to Save'. This could include investment in technology or processes. The "green" investments are a good example of this, where investment in more efficient heating systems reduces the ongoing cost of energy consumption.
 - **Health and Wellbeing:** The Council's receives the Disabled Facilities scheme, which pays for essential housing adaptations to help disabled people stay in their own homes. In the current climate, it is also important that the Council plays wider role in the health and wellbeing of its local community.

Therefore the draft Capital Programme is a very concentrated programme, mainly focusing on the development of additional social housing.

3.0 2024/25 General Fund Budget – Revised Position

- 3.1 As previously highlighted, the value of the reduction in the outstanding shortfall will depend on members' appetite for the specific proposals. For the October cabinet, savings options were presented with the officer's view on the risk level using Red, Amber, Green (RAG) as follows:

Red – indicates the saving could be taken, but there are higher risks/ implications associated with it and therefore officers would not recommend it;

Amber – indicates the saving could be taken, but there are risks and implications associated that members need to be aware of / accept;

Green – indicates a saving that is recommended by officers.

- 3.2 Following the review of these savings, a number of options have been removed and a number have been updated to reflect new information resulting in a different financial value attached. The updated position of each saving is shown in **Appendix 1**. The overall value of these savings is now as follows:

Round 1	(£269,380)	(£535,566)	(£532,731)	(£1,337,677)
Revisions to Round 1 options	(£603,829)	(£182,311)	£479,417	(£306,723)
Revised Round 1 Total	(£873,209)	(£717,877)	(£53,314)	(£1,644,400)

- 3.3 It is important to remember, the Leader of the Council made a powerful public statement at Cabinet on 19 September about the value of the officers and their commitment as an administration to avoiding the need for any staff redundancies. **Therefore any staffing saving will only be taken if a post becomes vacant.**
- 3.4 In addition, following further detailed challenge and review of each service area through a Star Chamber process by the Deputy Chief Exec (S151), Corporate Manager for Finance, Property and Climate Change, and the HR Operations Manager, a number of new Service Pressures and Savings options have been identified. These again have been given a "R.A.G. status" and are included within **Appendix 2**. The overall value of these savings is now as follows:

New Pressures / Savings identified	(£61,400)	£383,000	£0	£321,600
Revised MTFP Assumptions for Services	(£100,000)	£266,700	£	£166,700
Revised MTFP Assumptions for Non-Service	£132,000	(£661,000)	£0	(£529,000)
Total	(£29,400)	(£11,700)	£0	(£40,700)

3.5 Therefore, options totalling £1,685k are presented to members for decision.

Round 1 – Revised	(£873,209)	(£717,877)	(£53,314)	(£1,644,400)
New Pressures / Savings / Revised Assumptions	(£29,400)	(£11,700)	£0	(£40,700)
Total	(£902,609)	(£729,577)	(£53,314)	(£1,685,100)

3.6 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.

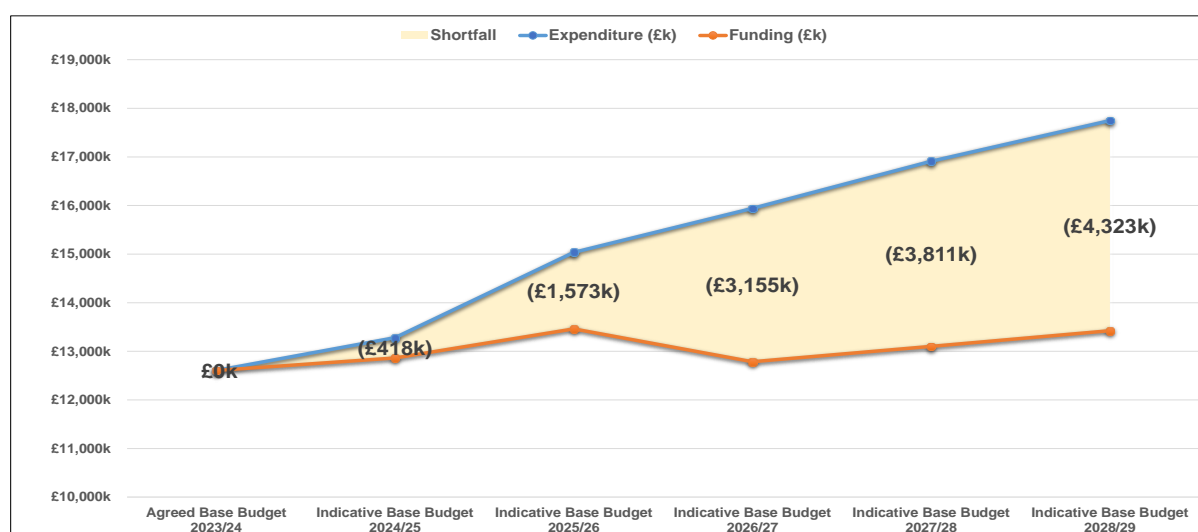
3.7 If fully approved, the revised overall position for 2024/25 is a shortfall of £418k as shown in Table 1 below and the associated graph. **Appendix 3** shows the Service movement at a granular service level. Assumed movements in Reserves for 2024/25 are included within **Appendix 4**.

3.8 The future years projected shortfalls have been updated to reflect the budget amendments included in Appendices 1 and 2, plus any alterations in assumptions or known changes.

Table 1 – MTFP General Fund Summary

2023/24		2024/25	2025/26	2026/27	2027/28	2028/29
£000		£000	£000	£000	£000	£000
0	September Annual Shortfall	2,103	1,631	658	357	457
0	Savings Options	(1,338)	0	0	0	0
0	Round 1 Revisions	(307)	146	53	(114)	(76)
0	Round 1 New Savings	322	250	0	0	0
0	Round 1 Assumptions	167	(1,199)	392	163	(7)
0	Round 1 Non-Service	(529)	327	478	250	138
0	December Annual Shortfall	418	1,155	1,581	656	512
0	December Cumulative Shortfall	418	1,573	3,155	3,811	4,323

Graph 1 – MTFP General Fund Cumulative Budget Gap 2023/24 to 2028/29



3.9 The main movement within the future years forecast is the following amendment to these key assumptions:

- The reduction in grant funding and retained Business Rates is slipped from 2025/26 to 2026/27 following little progress or updated communications from Government. Given a general election is likely to take place in 2024, it is unlikely that any new Government will be clear on its funding policy in time for 2025/26.
- The assumed reduction in that grant is halved as it is clear that the sector is struggling and it is difficult to see how significant further funding cuts are sustainable.
- Forecast interest receivable is reduced due to lower cash balances available for investment and an assumed reduction in interest rates.

4.0 Housing Revenue Account

4.1 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).

4.2 The Council continues to undertake valuable benchmarking work in conjunction with Housemark. These findings are then used to inform the budget setting process. In doing so, MDDC are able to better identify their position in relation to other authorities in the sector and identify areas for improved efficiency.

4.3 The overall HRA budget has been constructed on a detailed line-by-line examination of expenditure and income, having regard to last year's outturn, this year's forecast position and the on-going improvement of the housing service.

4.4 Some items of expenditure can be defined quite accurately whilst others require managers to exercise business judgement based upon their experience, particularly in the case of new commitments. Where such judgement has been applied, the proposals before Members are based upon realistic assumptions.

4.5 The main changes for the 2024/25 budget can be summarised as follows:

Expenditure:

- An assumed pay award for 2024/25 equivalent to 4%;
- Pension Contribution rate remaining at 19.0%;
- Forecast increase in contractor and materials spend against the current year budget;
- Provision for Fire Safety and additional mould/damp revenue budget, £300k.
- Net increase in the establishment to support the ambitious development programme.

Income

- An estimate of below inflation (based on September CPI) increase of 6% is proposed on existing rents, this will be subject to direction from Government in the coming weeks;
- Garage rents and Garage plot ground rents to be reviewed and proposals brought to a future Cabinet, at present the budget assumes no change to the weekly charge;
- Increased interest yields on balances held.

4.6 The overall rental income was materially affected by the Governments previous policy to reduce Rents by 1% each year for four consecutive years. Although the current policy is to enable rents to be increased by 1% above inflation, for 2023/24 the government capped this to 7% due to the prevailing inflation rate. Presently officers have assumed a notional 6% rise in tenant rents for 2024/25, however as stated previously, once government direction is provided, further details will be provided.

4.7 Current legislation on Right to Buy means that we're likely to sell several properties in future years. We estimate, based on historic data that 16 will be sold next year.

4.8 Similarly, we forecast that we will have a number of void properties during the year. We have a prudent forecast of 84 voids across the year this is based on an assessment of current void numbers in line with previous years to reflect the financial implications on tenants of the Cost of Living Crisis (this was previously increased to reflect the move to Universal Credit and Covid-19).

4.9 Budget continues to be included to address legislation post Grenfell and to undertake further Fire Risk remedial action. However, significant further

investment will be required to further contribute to the decarbonisation of the Housing Estate and achieve Net Zero by 2030.

- 4.10 It has been deemed as prudent to maintain the HRA reserve balance at £2,000k and it is expected to remain so throughout 2023/24. At the start of 2023/24, other HRA reserves totalled £22,190k. This included £15,775k in the Housing Maintenance Fund (HMF); £653k in the Renewable Energy Fund (REF) and £189k for future decarbonisation works. It is intended that any expenditure funded from the REF monies be used on renewable energy schemes.
- 4.11 The budget summary for the 2024/25 HRA is shown in **Appendix 5**. It will continue to provide for an enhanced housing service which will allow for more capital investment and additions to our existing stock.
- 4.12 The ambition to build a significant number of new properties continues across the 5-year Medium Term Financial Plan. The prospect of building new social housing raises the issue of significant future capital financing requirements. Budget at assumed interest rates of circa 5% is included within the future years of the MTFP to finance the build of a number of new highly efficient (zero carbon) modular buildings, subject to securing sufficient funding. Members are reminded that the constraint on increasing stock is still an issue of affordability, not the access to borrowing.

5.0 Capital Programme

- 5.1 A summary of the Capital Programme expenditure and funding is included in **Appendix 6**.
- 5.2 In line with the Q2 monitoring report, a total of £28,661k of slippage is included, split £14,967k General Fund projects, £13,694k HRA. The main areas of slippage relate to HRA developments where the overall programme of works is regularly reviewed. The Cullompton Relief Road still awaits funding via a successful bid against the Government's Levelling-Up Scheme.
- 5.3 Significant capital approval is no longer required following the decision to soft close 3Rivers Developments Limited. Planned future developments will no longer proceed. Similarly, Cabinet decided to not progress with the Post Hill development. As such, the projected borrowing requirement over the lifetime of the MTFP will significantly reduce, lowering the financing costs assumed in the Revenue budget. This also removes the forecast income gains from the treasury lending and any development profit.
- 5.4 The overall sum for new projects commencing in 2024/25 is provisionally forecast at £17,467k, split £7,807k General Fund and £9,660k within the HRA. The forecast timing of the spend when combined with slippage gives a total Deliverable Budget of £36,087k for the year. The level of borrowing required in

2024/25 stands at £14,447k, split £6,670k for the General Fund, much of which relates to projects outside of the Council's control and therefore may not start in year (Cullompton Town Centre Review Road and the design and build of a new Waste and Recycling Depot where land needs to be identified and purchased), and £7,777k for the HRA related to the ambitious Housing Development programme, which also continues to include assumptions of significant Homes England grant funding.

- 5.5 The overall indicative Capital Programme spanning the full 5-year MTFP timeframe totals £125,390k broken down into £49,136k General Fund and £76,254k for the HRA. The significant elements of this are the Cullompton Town Centre Review Road where we continue to search for suitable funding solutions, and the HRA Development Programme, an ambitious programme of building 500 new social houses. The delivery of housing development will continue to be refined following further work and the latest survey assessments, as will all projects.
- 5.6 The programme is funded from a variety of sources included S106 / Reserves (£16,145k), Capital Grant (£58,664k), Capital Receipts (£5,291k, including 1-4-1 receipts) and borrowing (£45,290k). Where possible, any borrowing will be undertaken internally and if it is necessary to seek external debt funding, it is likely this will be taken on a short-term basis as interest rates are expected to slacken over the next few years and inflation is brought back down. Lease financing is being finalised and will be included within the next update to January Cabinet.

6.0 Next Steps

- 6.1 The Autumn Statement delivered by the Chancellor of the Exchequer on 22 November, gave some headline indications that might affect Local Government. For example, increased planning fees, new/increased funding for homelessness prevention, freezing the small business multiplier for Business Rates, and an extension to the Homes for Ukraine Scheme. At present, little or no clarity is available on these headline announcements, therefore over the coming weeks it is expected that this will become available and enable officers to project their implications.
- 6.2 Furthermore, Michael Gove (Secretary of State for Levelling Up, Housing and Communities) is expected to publish the Local Government Funding Settlement in late December (prior to Parliament breaking up for Christmas). This will clarify the main grant support received from Government for 2024/25. An update will be given to January Cabinet (potentially verbally if the announcement is too late for publication of the Cabinet reports).
- 6.3 However as outlined above, there is still further savings required to balance the 2024/25 budget. Both Cabinet and the PDG's are asked for their views on

service prioritisation, ideally identifying which services are critical in their opinion and which they believe reductions will be acceptable. This can help inform officers to enable the identification of additional budget saving options required to balance the 2024/25 budget.

- 6.4 Should members reject some savings, or not indicate where else they would look to identify savings options, the use of Reserves would be required to deliver the legal obligation to balance the budget.

7.0 Conclusion

- 7.1 Moving forward, Members and Officers need to look to reduce the pressures over the next few years reflected in our MTFP and will need to identify ongoing savings to prevent the reliance upon reserves.

- 7.2 In order to conclude the statutory budget setting process, updates to the draft budget position will go through the PDG's and cabinet meetings before being agreed at Full Council on the 21 February 2024. During this period Officers will continue to identify and examine further savings possibilities that can reduce the longer term budget gap.

Financial Implications

The current budget for the General Fund shows a potential deficit of £418k, with an increasing funding deficit projected in future years. This highlights the need to take steps to plan for further reductions to our ongoing expenditure levels.

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 continues to make a number of financial assumptions based on a sensible/prudent approach, taking account of the most up to date professional advice that is available. Management must ensure that any proposed savings required to balance the budget are robust and achievable.

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: 28/11/2023

Statutory Officer: Maria De Leburne

Agreed on behalf of the Monitoring Officer

Date: 04/12/2023

Chief Officer: Stephen Walford

Agreed by or on behalf of the Chief Executive/Corporate Director

Date: 28/11/2023

Performance and risk: Steve Carr

Agreed on behalf of the Corporate Performance & Improvement Manager

Date: 23/11/2023

Cabinet member notified: Yes

Section 4 - Contact Details and Background Papers

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Background papers:

- 2024/25 – 2028/29 Medium Term Financial Plan update (September Cabinet)
- 2024/25 – 2028/29 Medium Term Financial Plan update (October Cabinet)