

Report for: Cabinet

Date of Meeting:	15 October 2024
Subject:	Medium Term Financial Plan – General Fund (GF)
Cabinet Member:	James Buczkowski – Cabinet Member for Governance, Finance and Risk
Responsible Officer:	Andrew Jarrett – Deputy Chief Executive (S151)
Exempt:	N/a
Wards Affected:	All
Enclosures:	Appendix 1 – Emerging Budget Pressures Appendix 2 – Savings Options

Section 1 – Summary and Recommendation(s)

To present to Member's the updated Medium Term Financial Plan (MTFP) which covers the period 2025/26 to 2028/29 and potential pressures and savings options for consideration / approval.

Recommendation(s):

That Cabinet Members:

1. Consider and agree the Green and Amber pressures within Appendix 1
2. Consider and agree the Green and Amber savings options within Appendix 2 taking into account the recommendations from the Policy Development Groups.
3. Consider the pressures / savings options with a red risk/deliverability rating and agree if any should be included within the 2025/26 Budget.
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 2024 – 2028 and future years beyond that plan.
- 1.2 On 17 September, the first draft MTFP covering the period 2025/26 to 2028/29 for the General Fund was presented to Cabinet. This estimated a funding shortfall of £1.2m in 2025/26 rising to £4.0m by 2028/29. This number is derived without any remedial action and is a cumulative figure – i.e. if the £1.2m is found to balance the 2025/26 position, the overall budget gap will reduce to £2.8m. 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. 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.
- 1.3 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 2025/26 Budget Options

- 2.1 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 this MTFP, with a particular focus on 2025/26. Indicative areas where possible budget pressures (**Appendix 1**) are being felt and budget savings (**Appendix 2**) could be found have formed the basis of the discussions with the Policy Development Groups (PDG's). In addition the PDG's were asked to identify further options to resolve the immediate budget gap for 2025/26 and future years.
- 2.2 In putting forward the options, officers have applied a risk level to them based upon Red, Amber, Green 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.

2.3 The overall value of the savings proposed is as follows:

	Low Risk / High Deliverability	Medium Risk / Medium Deliverability	High Risk / Low Deliverability	TOTAL
Pressures	£120k	£605k	£200k	£925k
Savings	(£369k)	(£1,162k)	(£305k)	(£1,836k)
Net Saving	(£249k)	(£557k)	(£105k)	(£911k)

2.4 Based on only accepting the Green and Amber budget options, the overall 2025/26 position is forecast to move as set out below:

Initial forecast Shortfall		£1,196k
Emerging Budget Pressures	Appendix 1	+ £725k
Budget Options Identified:		
Cabinet	Appendix 2	(£757k)
Economy & Assets PDG		(£172k)
Community, People and Equalities PDG		0
Homes		(£129k)
Planning, Environment & Sustainability PDG		(£39k)
Service Delivery & Continuous Improvement PDG		(£434k)
Revised forecast Shortfall		

2.5 During the PDG discussions, only the following was recommended not to be considered by Cabinet at this time, as the committee requested greater clarity on the implications of the saving.

Appendix 2 – row 8 – Let’s Talk MidDevon – (£111k)

Therefore it is recommended that this is not included within any savings approval. This would increase the remaining shortfall to £411k.

2.6 In addition, Cabinet should consider both the pressures and savings assessed as red. Within the budget pressure there are two proposals directly associated with the Council’s priorities, namely Climate Change and Planning Enforcement. Within the savings, there are two lines associated with income which officers now feel should be accepted – lines 35 and 37. Two further lines have possibly lowered in terms of deliverability – lines 25 and 31. Both relate to securing contribution from the Town or Parish Councils. To date, no proposals have been received but discussions are ongoing.

Should these specific lines be included / removed from the recommendations, the shortfall position alters as follows:

Revised forecast Shortfall		£390k
Let's Talk MidDevon Saving – delayed	Appendix 2 row 8	+ £11k
Proposed increase to Climate Change Budget	Appendix 1 row 7	+ £100k
Proposed increase to Planning Enforcement Budget:	Appendix 1 row 11	+ £100k
Additional Pre-App Planning Income	Appendix 2 row 35	(£40k)
Additional income generated from Planning Engagement in EUE proposals.	Appendix 2 row 37	(£10k)
Assumed financial contribution from Town / Parish Council - Property	Appendix 2 row 25	+ £60k
Assumed financial contribution from Town / Parish Council – Economic Development	Appendix 2 row 31	+ £50k
Potential Revised forecast Shortfall		£661k

2.7 Clearly there remains a significant budget shortfall in 2025/26. 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 2025/26 budget in February 2025. 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.

2.8 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.

3.0 Capital Programme 2025/26 – 2029/30

3.1 In order for the new Capital Programme projection to be meaningful, it requires the latest forecast slippage position to be incorporated. This will be available following Quarter 2 budget monitoring. Therefore, the indicated 2025/26 – 2029/30 Capital Programme will be brought to the November Cabinet.

3.2 The Capital Strategy needs to be relevant in the current financial and economic climate and therefore needs a cautious and measured, yet flexible, approach that reflects the fact that:

- The impact on the Revenue Budget arising from the Capital Investment Programme must be affordable and sustainable, and be used to aid the bottom line;

- Capital resources available to the Council are limited, with little direct funding provided from Government and currently limited scope to raise income from Capital Receipts;
- Local Government's range of responsibility is constantly changing along with the role that it plays within the community, leading to an expectation that Society will assist in the delivery of services.

3.3 Therefore the bids brought forward will focus on projects that deliver:

- Asset Replacement and/or Enhancement;
- Income Generation;
- Economic Regeneration;
- Invest to save opportunities; or
- Improve Health and Wellbeing

3.4 All capital expenditure must be financed, whether from external sources (Government grants and other contributions), the Council's own resources (Revenue, Reserves and Capital Receipts) or Debt (Borrowing, Leasing and Private Finance Initiative).

4.0 Housing Revenue Account – MTFP 2025/26 – 2029/30

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, MDCC 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 2025/26 budget can be summarised as follows:

Expenditure:

- An assumed pay award for 2024/25 equivalent to 3%;
- Pension Contribution rate remaining at 19.0%;
- An assumed inflationary increase in contractor and materials spend against the current year budget;
- Additional provision for essential repairs and maintenance and other legislative requirements.

Income

- An inflationary increase of 3% (based on CPI +1%) is proposed on existing rents, this will be subject to direction from Government in the coming weeks;
- An assumed reduction in Garage rents and Garage plot ground rent income as the development programme develops the land. At present the budget assumes no change to the weekly charge;
- Decreased 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 and in 2023/24 by the government cap of 7% when inflation was over 11%. The Ministry of Housing, Communities and Local Government (MHCLG) have confirmed councils and housing associations will be able to increase their social housing rents by September's Consumer Price Index figure plus 1% in 2025/26. However, the sector continues to call for a 10-year rent settlement to give greater financial certainty for tenants and landlords.
- 4.7 Currently there is no financial provision for recent announcements during the last few weeks and comments emanating from the labour party conference regarding the future of Right-to-Buy, changes to rent setting and new energy efficiency requirements. When more information is available we will remodel and hope to quantify in time for the November Policy Development Group meeting.
- 4.8 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.
- 4.9 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.
- 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 2024/25. At the start of 2024/25, other HRA revenue reserves totalled £21,330k. This included £13,943k in the Housing Maintenance Fund (HMF); £746k 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 2025/26 HRA is shown in **Appendix 3**. 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 Conclusion

- 5.1 The significant General Fund budget shortfall remaining is a challenge and the identification of further budget reductions is critical to balancing the budget for 2025/26 and indeed future years.
- 5.2 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.
- 5.3 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 19 February 2025. During this period Officers will continue to identify and examine further savings possibilities that can reduce the longer term budget gap.

Financial Implications

By undertaking regular reviews of the MTFP the Council can ensure that its Corporate Plan priorities are affordable. The implications of the budget gap are set out within the paper. Many areas require greater clarity, particularly around national funding and possible changes to Government Policy. 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. These continue to be kept under review and updated where necessary.

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: 1 October 2024 via Leadership Team meeting

Statutory Officer: Maria De Leiburne

Agreed on behalf of the Monitoring Officer

Date: 1 October 2024 via Leadership Team meeting

Chief Officer: Stephen Walford

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

Date: 1 October 2024 via Leadership Team meeting

Performance and risk: Dr Stephen Carr

Agreed on behalf of the Corporate Performance & Improvement Manager

Date: 1 October 2024

Cabinet member notified: Yes

Section 4 - Contact Details and Background Papers

Contact: Andrew Jarrett – Deputy Chief Executive (S151)

Email: ajarrett@middevon.gov.uk

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Background papers:

- 2024/25 Budget
- 2024/25 Qtr. 1 Budget Monitor