

**Medium-Term Financial Plan 2021/22 to 2025/26**

*February 2021*

**1. Background**

1.1 The preparation of a Medium-Term Financial Plan (MTFP) provides the cornerstone on which the Council can build and deliver services in accordance with the aims and objectives outlined in the Corporate Plan 2018-2023, which are grouped under the three corporate ambitions:

- Stronger Communities
- Stronger Place; and
- Stronger Council.

1.2 Through 'horizon scanning' and anticipating necessary change at the earliest opportunity, resilience and the ability to react to and withstand 'major shocks' is achieved.

**2. Introduction**

2.1 This is the second and final iteration of the MTFP within the 2021/22 budget cycle. It is a forward-looking document which provides a tentative look at the Council's General Fund financial picture over the next five years (2021/22 through to 2025/26) and re-evaluates the position in the light of the development and completion of the 2021/22 budget.

2.2 As mentioned above, this MTFP continues to focus on the Council's General Fund. At the time of preparing this report, the HRA Business Plan is currently subject to a detailed review. The current 30-Year Business Plan was adopted by the Council in 2018, immediately prior to the Government announcement removing the HRA Borrowing Cap. This has led to a more expansive approach by the Council, and the new Business Plan is being designed to support that, whilst ensuring the long-term financial sustainability of the HRA. It is a detailed undertaking, with initial results anticipated in the summer of 2021. A fully updated HRA MTFP will be presented to Members at the start of the 2022/23 budget cycle.

2.3 The November 2020 MTFP revealed a projected deficit of £2.110 million in 2021/22; this was after the assumed receipt of £1.0 million in Government support for Covid-19 and the use of £1.0 million from the Council's general contingency reserves. The budget preparation process for 2021/22 has now reached its final stages, with detailed budget proposals prepared that address the original deficit identified back in November 2020, achieve a Council Tax freeze and take account of all subsequent developments, including the announcement of the Local Government Finance Settlement for 2021/22, as well as the evolving Government financial support packages made available to local government in response to the effects of the pandemic.

2.4 The November 2020 MTFP projections can be summarised as follows:

| Financial Year | (Surplus)/Deficit | Comment   |
|----------------|-------------------|---|
|                | £'s               |   |
| 2021/22        | 2,110,256         | Assumed £1 million Government support for Covid-19 + £1 million Use of Reserves |
| 2022/23        | 1,100,173         | Assumed £0.5 million Use of Reserves  |
| 2023/24        | 37,401            |   |
| 2024/25        | 98,678            |   |
| 2025/26        | 227,223           |   |

2.5 The MTFP is deliberately concise, focussing on the most significant financial issues faced by Epping Forest District Council over the medium-term. Two major factors have dominated this year:

- **The Covid-19 Pandemic** – the measures taken by the UK and most major countries worldwide in response to the global pandemic declared by the World Health Organisation (WHO) in March 2020 had an immediate and profound impact on economies across the world. At a national and local level, the impact on UK local government and Epping Forest District Council has had a massive impact on both operations and finances, with major losses being experienced on a number of income streams ranging from core funding sources such as Council Tax and Business Rates through to fees and charges from Leisure Centres, Car Parking, Building Control, Planning and Licensing. The 2020/21 financial year has so far borne the brunt of the financial pressure, with the position being alleviated – to an increasing extent – by emergency financial support from the Government.

Although the immediate financial pressure – thanks to Government support – has eased in recent months, there is still significant future uncertainty, especially with income streams. Optimism is high that, with the rollout of the vaccine, the leisure centres will bounce back in due course. Similarly, an economic recovery should eventually repair most of the damage caused to Council Tax income. However, there are genuine fears that some major income streams will never return to their pre-pandemic levels. This especially applies to Car Parking charges whereby commuter parking demand could be permanently reduced; but of greater concern perhaps is the potential long-term damage to revenue from Business Rates. For example, the Council has enjoyed significant protection in 2020/21 in the form of “Section 31” grants from Government to compensate for temporary reliefs, especially in the retail sector. It remains to be seen what the impact on Business Rates collection will be when ‘normal’ (less generous) reliefs return.

- **The Local Government Finance Settlement** – the four-year settlement announced in 2016 was once again rolled forward into 2021/22 (Year 6) as part of the Chancellor’s one-year Spending Review, announced in November 2020. The provisional Settlement for 2021/22 eventually announced in December 2020 was relatively generous in terms of support for Covid-19. But the outcome for Epping Forest District Council in other areas was more mixed, with especially disappointing news on New Homes Bonus (NHB). Huge uncertainty remains, with the Chancellor confirming that the Fair Funding Review has been further delayed, with no indication as to when the review will be revisited.

### 3. Financial Projections

3.1 The updated MTFP (2021/22 through to 2025/26), reflecting a draft General Fund balanced budget for 2021/22, is summarised in the table below.

| Description                          | 2021/22<br>(DRAFT<br>BUDGET) | 2022/23         | 2023/24         | 2024/25         | 2025/26         |
|--------------------------------------|------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                      | £000's                       | £000's          | £000's          | £000's          | £000's          |
| <b>NET EXPENDITURE</b>               |                              |                 |                 |                 |                 |
| Employees                            | 23,910                       | 24,650          | 25,389          | 26,151          | 26,935          |
| Premises                             | 2,959                        | 3,018           | 3,279           | 3,344           | 3,411           |
| Transport                            | 361                          | 369             | 376             | 384             | 391             |
| Supplies & Services                  | 8,814                        | 9,017           | 9,220           | 9,405           | 9,594           |
| Support Services                     | 51                           | 52              | 53              | 54              | 55              |
| Contracted Services                  | 6,384                        | 6,447           | 6,762           | 6,833           | 6,905           |
| Transfer Payments                    | 25,405                       | 23,630          | 23,630          | 23,630          | 23,630          |
| Financing Costs                      | 2,215                        | 2,742           | 3,586           | 4,127           | 4,302           |
| <b>Gross Expenditure</b>             | <b>70,101</b>                | <b>69,925</b>   | <b>72,295</b>   | <b>73,929</b>   | <b>75,225</b>   |
| Fees & Charges                       | (15,650)                     | (16,583)        | (17,424)        | (17,773)        | (18,128)        |
| Government Contributions             | (27,209)                     | (25,177)        | (25,177)        | (25,177)        | (25,177)        |
| Qualis Income                        | (3,365)                      | (4,520)         | (5,474)         | (5,490)         | (5,377)         |
| Miscellaneous Income                 | (233)                        | (233)           | (233)           | (233)           | (233)           |
| Other Contributions                  | (2,965)                      | (2,965)         | (2,965)         | (2,965)         | (2,965)         |
| HRA Recharges                        | (3,988)                      | (4,292)         | (4,404)         | (4,518)         | (4,636)         |
| <b>Net Expenditure</b>               | <b>16,690</b>                | <b>16,156</b>   | <b>16,618</b>   | <b>17,773</b>   | <b>18,708</b>   |
| <b>FUNDING</b>                       |                              |                 |                 |                 |                 |
| Council Tax                          | (8,236)                      | (8,640)         | (9,180)         | (9,645)         | (10,108)        |
| Business Rates                       | (5,162)                      | (5,265)         | (5,371)         | (5,478)         | (5,588)         |
| Collection Fund Adjustments          | 336                          | 154             | 154             | 0               | 0               |
| Council Tax Sharing Agreement (CTSA) | (340)                        | (347)           | (454)           | (563)           | (574)           |
| <i>Non-Specific Grants:</i>          |                              |                 |                 |                 |                 |
| New Homes Bonus                      | (477)                        | (452)           | 0               | 0               | 0               |
| Covid-19 Funding Allocation          | (663)                        | 0               | 0               | 0               | 0               |
| Lower Tier Services Grant            | (186)                        | 0               | 0               | 0               | 0               |
| Other                                | (12)                         | (12)            | (12)            | (12)            | (12)            |
| Government Support for Covid-19      | (600)                        | 0               | 0               | 0               | 0               |
| Contribution to/(from) Reserves      | (1,350)                      | (500)           | 0               | 0               | 0               |
| <b>Total Funding</b>                 | <b>(16,690)</b>              | <b>(15,062)</b> | <b>(14,863)</b> | <b>(15,698)</b> | <b>(16,282)</b> |
| <b>In-Year (Surplus)/Deficit</b>     | <b>0</b>                     | <b>1,094</b>    | <b>661</b>      | <b>320</b>      | <b>352</b>      |
| <b>Cumulative (Surplus)/Deficit</b>  | <b>0</b>                     | <b>1,094</b>    | <b>1,755</b>    | <b>2,075</b>    | <b>2,426</b>    |

3.2 As presented to Cabinet and Scrutiny, the originally forecast £2.110 million deficit for 2021/22 identified in the November 2020 MTFP has now been eliminated (covered in **Appendix A**). It is a highly complex exercise to draw detailed comparisons between the two iterations of the MTFP; there are multiple variables that 'roll up' cumulatively as the years progress. However, it is possible to highlight the key influences in Years 2 and 3 as follows:

- **2022/23 (£1.094 million deficit)** – this is very close to the projected deficit of £1.100 million in the November 2020 MTFP. Reduced yields on Council Tax (due to Council Tax freeze in 2021/22) and Business Rates (due to expected increase in Levy) have added to an assumed major drop off in Government Support and the Use of Reserves. However, the negative impact here has been matched by a quicker than originally envisaged recovery on Fees and Charges (mainly in the light of the vaccine); and
- **2023/24 (£0.661 million deficit)** – this is up by £0.624 million compared to the projected deficit in the November 2020 MTFP. By Year 3, the effects of the recently expanded Capital Programme begin to take effect, including the new Leisure facility in Epping and the Joint Museum and Library facility in Waltham Abbey; both schemes have been added to the Programme since the November 2020 MTFP was prepared.

3.3 Embedded in the overall forecasts are a range of net spending and funding issues and assumptions. Key **net spending** highlights and assumptions include the following:

- **Inflation** – although a reduced Pay Award assumption of 1.5% (in the light of the Public Sector Pay Freeze) is included in the 2021/22 budget proposals, an assumed annual increase of 3.0% has been reintroduced for 2022/33 and beyond. Other items have generally been inflated by 2.0%, in accordance with the Bank of England's long-term inflation target. The published CPI rate for December 2020 was 0.6% (up from 0.3% in November 2020)
- **Growth** – assumed budget growth at this stage has been very limited and generally confined to the revenue consequences of the recently expanded Capital Programme (included elsewhere on this agenda). However, the improving financial picture on the General Fund budget for 2020/21 at the time of preparing this report could potentially mean that the unallocated General Reserve position may be better than assumed some months back; this might provide an opportunity to ring-fence some limited funds for one-off investment priorities in 2021/22 and beyond
- **Financing Costs/Qualis Income** – the cost of financing both Qualis Loans and the expanded Capital Programme, has resulted in some increased costs. This is especially the case in respect of the assumed advance of £47.0 million to Qualis in 2022/23 in the form of a Regeneration Finance Loan. Although (based on an assumed PWLB rate of 1.5%) this increases interest payments by £705,000 annually, it also increases interest receipts by £1,880,000 (based on an assumed rate of 4.0%) i.e. realising a 2.5% margin to support the Council's General Fund. Interest rate assumptions are cautious estimates at this stage only and are likely to be subject to variation by 1st October 2022 (the assumed lending date); and
- **Fees and Charges** – as noted above, the vaccine brings fresh optimism for a recovery on Fees and Charges. Most notably on the Leisure Management Fee whereby a more optimistic, but still cautious, assumption has been made with income assumed to be £0.5 million in 2021/22, £1.0 million in 2022/23 and £1.5 million in 2023/24. It might be possible to include an even more optimistic assumption in the next iteration of this MTFP based on experience over the next 6 months.

### 3.4 Key *funding* highlights and assumptions include the following:

- **Council Tax** – a Council Tax freeze has been assumed in 2021/22, reverting to an annual £5 increase with effect from 2022/23. There is of course an option to review this assumption
- **Business Rates** – the outlook for Business Rates in the medium-term is very uncertain. Complex Government support arrangements in 2020/21 have so far protected the Council, but there are the early signs of some significant risks emerging. The damage caused to businesses by the pandemic is likely to see more businesses fail in the short and medium-term, which is likely to damage the local tax base. Additional specific risks are also beginning to emerge. In particular, the Valuation Office Agency (VOA) are reported to have seen a surge in Appeal cases based on a “Material Change in Circumstances” (caused by the pandemic). If these cases succeed, based on current arrangements, the Council would be liable for 40% of the cost of any refunds awarded (as well as reduced income in the future from a lower Business Rates liability). The Council makes an annual provision to cover the potential costs associated with Appeals, but so far, no additional provision has been made for what may be a forthcoming increase in refunds
- **New Homes Bonus** – although still very uncertain, it looks increasingly likely that the Council will not be receiving any future allocations from the New Homes Bonus (NHB). The NHB has been a significant source of funds to the Council over the last decade. The final legacy payment of £0.452 million is expected in 2022/23
- **Covid-19 related Grants/Support** – all Government support for Covid-19 is assumed to end in 2021/22. If Government support subsequently continues into 2022/23 then it is assumed that there will be a need for compensation (i.e. offsetting any perceived windfall); and
- **Use of Reserves** – there is an assumed use of £0.5 million of the Council’s contingency reserves for 2022/23, with nothing assumed thereafter; the assumption remains unaltered to the one included in the November 2020 MTFP.