

Updated Medium-Term Financial Plan 2022/23 to 2026/27

GENERAL FUND*October 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 first iteration of the MTFP in the 2022/23 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 (2022/23 to 2026/27) and re-evaluates the position in the light of developments since the last MTFP (2021/22 to 2025/26) was adopted by the Council in February 2021.

2.2 This part of the MTFP focuses on the Council's General Fund. An emerging HRA Business Plan is being developed and this underpins an updated MTFP for the HRA, which is presented in Appendix B.

2.3 The February 2021 MTFP revealed a projected deficit of £1.094 million in 2022/23; this assumed the use of £0.5 million from the Council's general contingency reserves. The full projections can be summarised as follows:

Financial Year	(Surplus)/Deficit	Comment
	£'s	
2021/22	0	Assumed £1.263 million Government support for Covid-19 + £1.350 million Use of Reserves
2022/23	1,093,715	Assumed £0.5 million Use of Reserves
2023/24	661,267	
2024/25	319,525	
2025/26	351,700	

2.4 The MTFP is deliberately concise, focussing on the most significant financial issues faced by Epping Forest District Council over the medium-term. There are currently four major factors to note:

- **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 had a massive impact on both operations and finances, with major losses 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 bore the brunt of the financial pressure, with the position eventually being alleviated – to a large extent – by emergency financial support from the Government.

Although the immediate financial pressure for 2020/21 – thanks to Government support – was eventually alleviated, a range of the problem areas have persisted into 2021/22, including reduced usage of Leisure Centres and Car Parks. Once again, the Government has been supportive, with estimated financial assistance in the region of £1.2 million being made available to this Council in recognition of the extended (third) lockdown and subsequent social distancing measures.

However, following the lifting of most restrictions on 19th July 2021, the Government is now winding down its support for the pandemic to local government. This presents a significant challenge to the Council. Whilst there is some cause for optimism, with footfall in Leisure Centres increasing at a slightly faster rate than envisaged when the 2021/22 budget was set, there are some income streams that might never recover to pre-pandemic levels. For example, a seemingly permanent widespread shift towards hybrid or home working looks likely to result in reduced demand for Council Car Parks from commuters.

There is also a long-term uncertainty regarding Business Rates income. For example, the Council continues to enjoy protection in the form of “Section 31” grants from Government to compensate for temporary reliefs. It remains to be seen what the impact on Business Rates collection will be when ‘normal’ (less generous) reliefs return.

- **Local Government Finance Settlement** – for the past six years, local authority funding has been subject to a national settlement originally announced in 2016; 2019/20 was due to be the final year of a four-year settlement. However – due to Brexit – the key elements of the four-year settlement were rolled forward into 2020/21. This was further rolled forward into 2021/22 due to the pandemic.

The Chancellor has recently announced that he will provide details of a three-year spending review on 27th October 2021. His will cover the financial years 2022/23, 2023/24 and 2024/25. Huge uncertainty remains as to what the outcome could be for local government and what form (and when) a range of other reforms (e.g. to Business Rates) will take. The uncertainty also extends to established funding streams such as the New Homes Bonus, which the Council has benefited from for several years.

Given the usual pattern whereby the Local Government Finance Settlement is announced just before Christmas, definitive figures for 2022/23 may not be available until late December 2021.

- **Economic Uncertainty (including Inflation)** – at the time of preparing this report, the UK is facing substantial economic uncertainty following Brexit and the Pandemic. This includes disruption to supply chains which is leading to shortages in a wide range of raw materials, goods and services (e.g. this has led to ‘panic buying’ of fuel, further adding to the problem). Most directly relevant to this MTFP perhaps is inflation. The August 2021 CPI rate was 3.2%, its highest point for some time, and well above the Government’s long-term inflation target of 2.0%. The Bank of England (in its August 2021 Monetary Policy Report) has indicated its expectation that CPI will rise further to 4.0% in late 2022, eventually settling back down at 2.0% in late 2023. However, there is some speculation in the media that inflation could spiral to levels unseen in the UK since the 1970s. Overall therefore, price inflation is a significant concern.
- **Balance Sheet** – as reported to Cabinet on 13th September 2021, due to a range of factors, including recent accounting adjustments and reserve movements, the balance of £4.017 million (subject to audit) on the Council’s General Fund Reserve as at 31st March 2021 is now very close to its agreed minimum contingency balance of £4.0 million.

This consequently heightens pressure on the 2021/22 budget which includes a planned contribution of £1.350 million from the same reserve, as well the MTFP for 2022/23 and beyond.

3. Financial Projections

3.1 Current Spending Levels

3.1.1 The starting point for developing the MTFP is the current level of spending. The 2021/22 General Fund base budget was adopted approved by the Council on 25th February 2021 and can be summarised as follows:

Description	2021/22 Budget
	£'s
Employees	23,910,290
Premises	2,959,140
Transport	361,520
Supplies & Services	8,814,200
Support Services	51,250
Contracted Services	6,384,160
Transfer Payments (Housing Benefits)	25,405,300
Financing Costs	2,215,000
Gross Expenditure	70,100,860
Fees & Charges	(15,650,480)
Government Contributions (including Housing Benefit Subsidy)	(27,208,730)
Miscellaneous Income (including Qualis)	(3,598,130)
Other Contributions	(2,964,800)
HRA Recharges	(3,988,330)
Net Expenditure	16,690,390

3.1.2 It should be noted that, as reported to Cabinet in February 2021, late service realignments meant that the General Fund service structure presented within the initial 2021/22 Budget required further refinement. The required changes, which have been actioned and were presented in the 2021/22 Quarter 1 Budget Monitoring Report (Stronger Council Select Committee 14th September 2021) were relatively slight and have no impact on Net Expenditure or Funding.

3.1.3 Net expenditure is funded as follows:

Description	2021/22 Budget
	£'s
Council Tax	(8,235,690)
Business Rates	(5,162,020)
Collection Fund Adjustments	336,410
Council Tax Sharing Agreement (CTSA)	(340,000)
<i>Non-Specific Grants:</i>	
New Homes Bonus	(477,480)
Lower-Tier Services Grant	(185,880)
Other	(12,410)
Government Support for Covid-19	(1,263,320)
Contributions to/ (use of) Reserves	(1,350,000)
Total Funding	16,690,390

3.2 Increased/(Reduced) Budget Demand

3.2.1 Based on an initial high-level review of the current base budget, and anticipated budget demand in 2022/23 and beyond, several areas of changed budgetary demand have been identified and are presented in the table below.

Medium-Term Increased/(Reduced) Budget Demand (@ October 2021)					
Description	2022/23	2023/24	2024/25	2025/26	2026/27
	£'s	£'s	£'s	£'s	£'s
Employees					
Unfunded Planning Posts (2+)	71,300	0	0	0	0
Executive Assistant (COO) post	27,900	0	0	0	0
Insurance Specialist	50,000	0	0	0	0
Building Control Staff Mileage	13,000	0	0	0	0
Pens Deficit Reduction Payments	21,936	0	0	0	0
Added Yrs/Unf'd Pens Payments	240,000	(20,000)	(20,000)	(20,000)	(20,000)
Reg Services (Sal over-provision)	(6,500)	0	0	0	0
Supplies & Services					
Insurance Premium	161,300	0	0	0	0
Storage & Archiving	14,200	0	0	0	0
Firmstep Forms & CRM	17,578	0	0	0	0
FIMS Replacement	3,840	0	0	0	0
Gemalto Safenet	19,000	0	0	0	0
Mobile Phones	(80,000)	0	0	0	0
DP Project Support	(45,000)	0	0	0	0
Local Plan Legal Fees	(50,500)	0	0	0	0
Contracted Services					
Waste Contract (Variable Costs)	200,000	0	0	0	0
New Waste Contract (Resources)	0	0	366,667	733,333	0
New Waste Contract (Recycling)	0	0	66,667	133,333	0
Transfer Payments					
Reduced HB Payments	(3,327,453)	(2,661,962)	(2,129,570)	(1,703,656)	(1,362,925)
Fees & Charges					
Car Park Season Tickets	160,000	0	0	0	0
Civic Offices Lease	110,570	(86,610)	(72,175)	0	0
Leisure Contract Income	(971,430)	0	0	0	0
Car Parking (Pay & Display)	(35,696)	107,852	0	0	0
Planning Applications Income	(106,000)	0	0	0	0
Government Contributions					
Reduced HB Claim	3,327,453	2,661,962	2,129,570	1,703,656	1,362,925
Reduced HB Admin Subsidy	12,041	9,633	7,706	6,166	4,932
HRA Recharges					
Increased Recharges	(500,000)	0	0	0	0
Net Increased/(Reduced) Budget Demand	(672,461)	10,875	348,865	852,832	(15,068)

3.2.2 The table shows a net decrease in budget demand of £672,461 in 2022/23, but significant increases are anticipated in 2024/25 (£348,865) and 2025/26 (£852,832) especially. There are two major factors to note:

- Leisure Contract Income (2022/23 - £971,430 positive) – Leisure Centre usage has increased significantly in recent weeks and now exceeds the expectations included in the MTFP adopted in February 2021. The full Management Fee of £1.471 million is now expected to be restored in 2022/23; and
- Waste Management Contract (2024/25 & 2025/26) – initial estimates as to the additional cost of the new Waste Management contract in 2024/25 suggest an additional cost pressure of £1.3 million (although, at the time of preparing this report, officers are exploring the potential for savings to at least partially offset these costs).

3.3 Inflation

3.3.1 Inflationary pressures have been reviewed based on latest available intelligence and are presented in the table below.

Medium-Term Inflation Assumptions (@ October 2021)					
Description	2022/23	2023/24	2024/25	2025/26	2026/27
	£'s	£'s	£'s	£'s	£'s
Employees	486,559	744,435	766,168	788,553	811,609
Premises	147,957	62,142	63,385	64,652	65,945
Transport	7,230	7,375	7,522	7,673	7,826
Supplies & Services	177,092	182,180	185,238	188,963	192,762
Support Services	1,025	1,046	1,067	1,088	1,110
Contracted Services	82,302	66,665	74,165	83,573	84,409
Fees & Charges	(329,861)	(336,033)	(344,197)	(351,081)	(358,103)
HRA Recharges	(89,767)	(119,031)	(122,125)	(125,301)	(128,559)
Net Increased/(Reduced) Budget Demand	482,538	608,778	631,221	658,119	677,000

3.3.2 It should be emphasised that – at the time of preparing this report – there are substantial uncertainties as to the future direction of inflation. Initial assumptions will be refined in the coming weeks as further intelligence emerges. The most recently available (August 2021) published CPI was 3.2%.

3.3.3 In most cases, an inflation rate of 2.0% (the Bank of England's long-term target rate) has initially been assumed. There are two significant exceptions:

- Employee Costs – whilst a 2.0% pay increase has been assumed for 2022/23, it is recognised that there is likely to be a longer-term upward pressure on pay awards, so annual increases of 3.0% have been assumed for 2023/24 onwards; and
- Premises Costs – at the time of preparing this report, energy prices are increasing significantly. It has therefore been assumed that Premises Costs will rise by 5.0% in 2022/23, settling back down to 2.0% in 2023/24. However, the situation is currently extremely volatile so assumptions will be further reviewed in preparing the draft budget.

3.3.4 Given the current financial challenge that the Council faces, it has been assumed that Fees and Charges will rise by an *average* of 2.0%. However, the Council does not have the discretion to unilaterally raise statutory fees and charges, and there is currently no assumption that Car Parking charges will increase. Consequently, some fees and charges will have to rise in excess of 2.0% for the average to be achieved.

3.3.5 It should be noted that the Government's recent decision to increase Employers' National Insurance contributions by 1.25% (1.25p in the pound) have been assumed as cost neutral in this iteration of the MTFP. Although the Council's annual costs are expected to increase by an amount in the region of £175,000, the Government has expressed an intention to protect public sector employers from this additional cost. Further details as to if and how this will happen are awaited.

3.4 Budget Growth

3.4.1 No discretionary Budget Growth items have been assumed in these projections. Given the Council's current financial position, it is assumed that any potential growth items – which are in line with Council priorities – will be prioritised and funded from budget reallocations/savings. The potential re-prioritisation of financial resources is matter for Members to consider.

3.5 Revenue Consequences of the Capital Programme

3.5.1 The assumptions on Qualis loans have been updated, and now encompass the rollout of the recently agreed additional £35.0 million loan facility. This is contributing to an increase of £996,100 in Finance Costs (reflecting the cost of PWLB loans), which is outweighed by an increase of £1,500,000 in Miscellaneous Income (loan repayments from Qualis to the Council). There is an overall Net Reduction in budget demand of £478,900. Further work on refining the detailed assumptions on Capital will be undertaken prior to preparing the draft budget.

3.6 Savings

3.6.1 There are currently no Savings assumed within the projections. The views of Members are sought on the prioritisation of potential cashable savings in the context of the Budget Deficit and Council priorities, whether from spending reductions or increased income.

3.7 Funding

3.7.1 The Council's core funding streams have been reviewed based on the latest available intelligence. The relevant budget movements are summarised in the table below.

Medium-Term Funding Assumptions (@ October 2021)					
Description	2022/23	2023/24	2024/25	2025/26	2026/27
	£'s	£'s	£'s	£'s	£'s
Council Tax	(404,250)	(540,290)	(465,070)	(462,860)	(470,520)
Business Rates	199,560	(99,250)	(101,230)	(103,260)	(105,320)
Collection Fund Adjustments	(186,410)	(150,000)	0	0	0
Council Tax Sharing Agreement	(210,000)	(100,000)	(13,000)	(13,260)	(13,530)
New Homes Bonus	25,760	451,720	0	0	0
Lower-Tier Services Grant	185,880	0	0	0	0
Credit Loss Adjustments	(50,970)	0	0	31,860	19,110
Government Support for Covid-19	1,263,320	0	0	0	0
Reserve Contributions	1,350,000	0	0	0	0
Net Increased/(Reduced) Budget Demand	2,172,890	(437,820)	(579,300)	(547,520)	(570,260)

3.7.2 The key budget assumptions captured in the table are as follows:

- Council Tax – there is a provisional assumption that the Council will increase the Council Tax by £5 for a Band D property for the duration of the MTFP. This is currently the maximum amount allowable. Such an increase would generate an estimated funding increase of around £400,000 in 2022/23 (allowing for some recovery in the tax base following the pandemic)
- Business Rates – initial projections of the estimated amount that the Council can expect to receive from the Business Rates Retention (BRR) scheme in 2022/23 have been completed. This results in an initial reduction of £199,560, although there is currently significant uncertainty as to how the Government will treat the Business Rates Multiplier for 2022/23; this usually increases by September CPI, but the default position is something that can be (and has been) disregarded in the past. A cautious 2.0% increase has been assumed in these projections compared to a CPI rate of 3.2% in August 2021
- Collection Fund Adjustments – the complexities created by the pandemic make an accurate estimate of the Collection Fund adjustment very difficult at this stage. However, as at 31st March 2021, the Council held an Earmarked Reserve of £6.650 million funded by surplus Section 31 money paid by Government as compensation for extended Business Rates Reliefs granted in response to the pandemic; this represents 40.1% of the cumulative deficit on the Business Rates share of the Collection Fund at the same point in time. Consequently, a 'zero adjustment' is assumed in 2022/23 for Business Rates.

The cumulative deficit on the Council Tax share of the Collection Fund is not mitigated by an Earmarked Reserve. At this stage therefore a negative Collection Fund adjustment of £150,000 (13.7% of cumulative deficit) has been assumed for Council Tax.

- Council Tax Sharing Agreement (CTSA) – the prospects for CTSA have improved since the last iteration of the MTFP in February 2021, with Quarter 1 projections for 2021/22 out-performing a budget expectation of £340,000. The improvement is expected to continue, and assumed funding from this source in 2022/23 has been assumed to rise to £550,000 (and up to circa £690,000 by 2026/27)
- Grants – following the demise of Revenue Support Grant (RSG) funding from the Government, the most significant remaining grant within the annual Settlement is the New Homes Bonus (NHB). The Government consulted on a replacement for the NHB earlier this year. Any new housing incentive scheme will reflect a more targeted approach that rewards local government where they are ‘ambitious’ in delivering housing growth. At this stage, there is no further detail on what form the new scheme will take. For now, legacy payments of £451,720 are assumed in 2022/23 only, with nothing beyond. Lower Tier Services Grant of £185,880 has been received in 2021/22; this is assumed to be a one-off payment, so has been removed from future funding assumptions
- Credit Loss Adjustments – it is a technical accounting requirement for the Council to provide for estimated credit losses on the £6.0 million Working Capital Loan to Qualis. For each year that Qualis maintains its loan payments, the size of that provision can be reduced, thus releasing revenue funds from the General Fund Reserve (£172,020 from 2022/23 to 2025/26)
- Government Support for Covid-19 – assumed Government funding of £1.263 million for 2021/22 for the pandemic, is expected to be discontinued. No Government support is assumed in 2022/23 and beyond; and
- Contribution to (from) Reserves – the 2021/22 budget is supported by a budgeted contribution of £1.350 million from the General Fund Reserve based on intelligence at the time of setting the budget in February 2021. The MTFP produced at the time also included the assumed use of £0.50 million in 2022/23. As reported to full Council on 29th July 2021, the Council’s General Fund Reserve is now very close to its adopted minimum contingency balance of £4.0 million. Consequently, there are no longer any surplus funds available to support the 2022/23 budget.

It should be noted that, as reported in the Quarter 1 2021/22 Budget Monitoring Report (Stronger Council Select Committee 14th September 2021), officers are working on achieving a “managed surplus” on the 2021/22 in order to eliminate (or significantly reduce) the originally planned drawdown on the General Fund Reserve. If this cannot be achieved, or for any other reason the balance falls below £4.0 million, then there is a potential requirement to replenish the Reserve; this would add to the deficits reported in this MTFP.

3.8 Summary Position

3.8.1 After taking account of the projections made in Sections 3.2 to 3.7 above, the projected medium-term revenue position for the General Fund (2022/23 to 2026/27), is summarised in the table below.

Description	2021/22 BUDGET/ BASELINE	2022/23 BUDGET STRATEGY	2023/24	2024/25	2025/26	2026/27
	£000's	£000's	£000's	£000's	£000's	£000's
NET EXPENDITURE						
Employees	23,910	24,814	25,539	26,285	27,054	27,845
Premises	2,959	3,107	3,169	3,233	3,297	3,363
Transport	362	369	376	384	391	399
Supplies & Services	8,814	9,057	9,262	9,448	9,638	9,832
Support Services	51	52	53	54	55	57
Contracted Services	6,384	6,666	6,983	7,491	8,441	8,525
Transfer Payments	25,405	22,078	19,416	17,286	15,583	14,220
Financing Costs	2,215	3,211	4,332	5,249	5,423	5,404
Gross Expenditure	70,101	69,355	69,130	69,430	69,883	69,645
Fees & Charges	(15,650)	(16,823)	(17,138)	(17,554)	(17,905)	(18,263)
Government Contributions	(27,209)	(23,869)	(21,198)	(19,060)	(17,351)	(15,983)
Miscellaneous Income (including Qualis)	(3,598)	(5,098)	(6,338)	(7,078)	(7,078)	(7,078)
Other Contributions	(2,965)	(2,965)	(2,965)	(2,965)	(2,965)	(2,965)
HRA Recharges	(3,988)	(4,578)	(4,697)	(4,819)	(4,945)	(5,073)
Net Expenditure	16,690	16,022	16,795	17,953	19,639	20,283
FUNDING						
Council Tax	(8,236)	(8,640)	(9,180)	(9,645)	(10,108)	(10,579)
Business Rates	(5,162)	(4,962)	(5,062)	(5,163)	(5,266)	(5,372)
Collection Fund Adjustments	336	150	0	0	0	0
Council Tax Sharing Agreement (CTSA)	(340)	(550)	(650)	(663)	(676)	(690)
New Homes Bonus	(477)	(452)	0	0	0	0
Covid-19 Funding	(1,263)	0	0	0	0	0
L-T Services Grant	(186)	0	0	0	0	0
Other Grants	(12)	(12)	(12)	(12)	(12)	(12)
Credit Loss Adjustment	0	(51)	(51)	(51)	(19)	0
Contribution to/(from) Reserves	(1,350)	0	0	0	0	0
Total Funding	(16,690)	(14,518)	(14,955)	(15,535)	(16,082)	(16,652)
In-Year (Surplus)/Deficit	0	1,504	336	579	1,139	74
Cumulative (Surplus)/Deficit	0	1,504	1,840	2,418	3,557	3,631

- 3.8.2 The table above shows a deficit of £1.5 million for 2022/23. This primarily reflects the impact of losing Government Support for Covid-19 (£1.263 million) and the contribution from the General Reserve (£1.350) compared to 2021/22. Estimated net expenditure in 2022/23 is £16.022 million, compared to available funding of £14.518 million. The Council is required to eliminate this deficit and set a balanced budget for 2022/23 in February 2021.
- 3.8.3 Looking further ahead, a further budget gap is expected to open-up again from 2023/24, with a peak annual budget pressure of £1.139 million occurring in 2025/26, following the letting of the new Waste Management contract.
- 3.8.4 It should be re-emphasised that these figures represent the first iteration of the MTFP in the 2022/23 budget cycle. Finance officers will now work on further refining these estimates in preparing the initial draft Budget proposals. The numbers presented can be expected to both increase and decrease in the coming months, and other factors could also potentially emerge that are not currently reflected in the figures and will have to be factored in.