

Medium-Term Financial Plan (MTFP) 2022/23 to 2026/27

Updated December 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 iteration of the MTFP within the 2022/23 budget cycle and covers both the General Fund and the ring-fenced Housing Revenue Account (HRA). 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 through to 2026/27) and re-evaluates the position in the light of the development and completion of the initial draft 2022/23 budget.

3. General Fund MTFP

3.1 The October 2021 MTFP revealed a projected General Fund deficit of £1.504 million for 2022/23, primarily reflected the loss of Government Support for Covid-19 (£1.263 million) and the contribution from the General Reserve (£1.350) compared to the 2021/22 budget. Estimated net expenditure was £16.022 million, compared to funding of £14.518 million.

3.2 The General Fund budget preparation process for 2022/23 has now reached its first major milestone, with initial draft budget proposals prepared that address the original deficit identified in October 2021, taking account of subsequent developments. However, the Local Government Finance Settlement for 2022/23 has yet to be announced, which means prudent – best available – funding estimates, are still a feature of the 2022/23 draft budget and this updated MTFP; these estimates will be further refined in the light of the actual Settlement (anticipated announcement December 2021).

3.3 The October 2021 **General Fund** MTFP projections can be summarised as follows:

Financial Year	(Surplus)/Deficit	Comment
	£000's	
2022/23	1,504	No Gov Covid support (£1.263 million in 2021/22) + no Use of Reserves (£1.350 million in 2021/22)
2023/24	336	
2024/25	579	New Waste Management contract from 1st December 2024
2025/26	1,139	
2026/27	74	

3.4 The updated MTFP (2022/23 through to 2026/27), reflecting an initial draft General Fund balanced budget for 2022/23, is illustrated in the table below.

General MTFP illustration (@ December 2021)						
Description	2022/23 (OCT 2021 MTFP)	2022/23 (INITIAL DRAFT BUDGET)	2023/24	2024/25	2025/26	2026/27
	£000's	£000's	£000's	£000's	£000's	£000's
NET EXPENDITURE						
Employees	24,814	25,525	26,271	27,039	27,830	28,645
Premises	3,107	2,828	2,885	2,942	3,001	3,061
Transport	369	321	327	334	340	347
Supplies & Services	9,057	9,042	9,246	9,432	9,622	9,815
Support Services	52	19	20	20	20	21
Contracted Services	6,666	6,801	7,118	7,627	8,579	8,665
Transfer Payments	22,078	22,210	19,654	17,609	15,973	14,665
Financing Costs	3,211	2,263	2,638	3,056	3,129	3,196
Gross Expenditure	69,355	69,009	68,159	68,060	68,495	68,414
Fees & Charges	(16,823)	(17,474)	(17,755)	(18,286)	(18,652)	(19,025)
Government Contributions	(23,869)	(24,277)	(21,721)	(19,676)	(18,040)	(16,731)
Miscellaneous Income (inc. Qualis)	(5,098)	(4,462)	(5,848)	(5,335)	(5,115)	(4,909)
Other Contributions	(2,965)	(2,426)	(2,426)	(2,426)	(2,426)	(2,426)
HRA Recharges	(4,578)	(5,225)	(5,344)	(5,466)	(5,591)	(5,716)
Net Expenditure	16,022	15,145	15,066	16,870	18,671	19,607
FUNDING						
Council Tax	(8,640)	(8,639)	(9,179)	(9,644)	(10,107)	(10,578)
Business Rates	(4,962)	(5,016)	(5,116)	(5,219)	(5,323)	(5,429)
Collection Fund Adjustments	150	150	0	0	0	0
Council Tax Sharing Agreement (CTSA)	(550)	(948)	(750)	(765)	(780)	(796)
New Homes Bonus	(452)	(452)	0	0	0	0
Covid-19 Funding	0	0	0	0	0	0
L-T Services Grant	0	0	0	0	0	0
Other Grants	(12)	(189)	(189)	(189)	(189)	(189)
Credit Loss Adjustment	(51)	(51)	(51)	(51)	(51)	(51)
Contribution to/(from) Reserves	0	0	300	0	0	0
Total Funding	(14,518)	(15,145)	(14,986)	(15,868)	(16,419)	(16,992)
In-Year (Surplus)/Deficit	1,504	0	80	922	1,250	362
Cumulative (Surplus)/Deficit	1,504	0	80	1,002	2,252	2,614

3.5 As presented in **Appendix A**, the originally forecast £1.504 million General Fund deficit for 2022/23 identified in the October 2021 MTFP has now been eliminated. 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 (2022/23) and 3 (2024/25) as follows:

- **2023/24 (£0.08 million deficit)** – this is an improved position compared a projected deficit of £0.336 million in the October 2021 MTFP. The key factor that underlies the positive swing is higher than originally forecast income from Fees & Charges; as reported in **Appendix A**, no increase in Car Parking charges was factored into the October 2021 projections and income from Planning Fees is now expected to be higher than originally envisaged. It should be noted that this iteration of the MTFP also assumes a contribution of £0.3 million to reserves in anticipation of the General Fund Reserve falling below the adopted minimum contingency level of £4.0 million; and
- **2024/25 (£1.002 million deficit)** – this is up by £0.423 million compared to a projected deficit of £0.579 million in the October 2021 MTFP. This is a combination of a large number of smaller factors, although recently updated assumptions on Qualis loans is a notable factor as the initial £6.0 million Working Capital Loan is expected to be paid off and, following an anticipated peak margin in 2023/24, in the absence of further loans – based on the usage of Equal Instalment of Principal (“EIP”) loans – interest receivable (in cash terms) will decline at a faster rate than interest payable so the cash yield on loan margins declines.

3.6 Overall though, the broad profile of this iteration of the MTFP remains unaltered, with the with a peak annual budget pressure of £1.250 million still occurring in 2025/26, following the anticipated letting of the new Waste Management contract.

3.7 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** – the published CPI rate for October 2021 was 4.2% (up from 3.1% in September 2021), although most commentators anticipate the current upturn in inflation rates to be short-lived, including the Bank of England; their Monetary Policy Report for November 2021 anticipates CPI inflation to peak at around 5% in April 2022 and to “fall back materially” from the second half of 2022. For the duration of this MTFP, including most of the budget for 2022/23 (subject to exceptions discussed in **Appendix A**), inflation has been assumed at 2.0%, which is (the Bank of England’s long-term target rate). However, the notable exception is Employee Costs; the provisional 2.0% pay increase reported in October 2021 for 2022/23 has been retained. But – from 2023/24 onwards, a 3.0% annual increase is assumed
- **Growth** – no discretionary budget growth items were assumed in the projections presented in October 2021. A small Growth item (of £40,000) was eventually included in the 2022/23 draft Budget proposal (for “Highways Rangers” – covered in **Appendix A**). No further growth items from 2023/24 onwards are currently assumed

- **Financing Costs** – following the reclassification of interest paid to the PWLB on Qualis loans (moved into Miscellaneous Income to match interest receivable on Qualis loans), the profile of financing costs has changed slightly, although it should be noted that interest payable on the General Fund Capital Programme is expected to grow significantly in 2023/24 and 2024/25, especially as the new Epping Leisure facility is developed. The amount of Minimum Revenue Provision (“MRP”) that the Council is required to set aside for the repayment of loans is also expected to grow in the earlier years of this MTFP due to profiled spending on assets with shorter expected useful lives (notably ICT and vehicle replacements)
- **Qualis Income** – increased lending to Qualis (an additional £35.0 million loan facility agreed by Cabinet in July 2021) and updated assumptions on timing and interest rates now mean that peak lending is expected to be reached in 2023/24 with an anticipated Council margin of £4.818 million, thereafter – assuming no further loans – declining as interest receivable declines at a faster rate than interest payable (e.g. a margin of £4.305 million is anticipated in 2024/25)
- **Fees and Charges** – as reported elsewhere (in **Appendix A**), income from Fees and Charges has recovered well (from the effects of the pandemic) in recent months. A flat 2.0% increase is assumed generally from 2023/24. No further increases in Car Parking charges are assumed (other than those currently proposed in the 2022/23 draft budget); and
- **HRA Recharges** – at this stage, recharges to the HRA are assumed to be relatively stable from 2023/24 onwards with just inflationary increases only applied. However, the Transformation work being undertaken by officers on General Fund services can be expected to yield savings that can be shared with the HRA; this will be reflected in future iterations of this MTFP.

3.8 Key **funding** highlights and assumptions include the following:

- **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 increases generate estimated annual funding increases of around £400,000. Members of course have the option to alter this assumption
- **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 made in October 2021 have been updated to reflect the September 2021 CPI rate of 3.1% only, which has made just a marginal difference (£54,000) to expectations for 2022/23. The Chancellor announced a freeze in the Multiplier in the Autumn Budget on 27th October 2021; it is still assumed that the Council will receive 100% compensation for this through Section 31 grant in the usual way. Further detailed work will be undertaken by officers during January 2022 to refine the Business Rates estimates in the light of the 2022/23 Local Government Finance Settlement 2022/23; this could lead to some adjustments to the current figures in the MTFP

- **Collection Fund Adjustments** – the complexities created by the pandemic still 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. As with Business Rates, this is an area that officers will be examining in detail during January 2022.
- **Council Tax Sharing Agreement (CTSA)** – as reported in **Appendix A**, latest estimates (2nd December 2021) provided by Essex County Council show a much more optimistic picture for income from the CTSA scheme for 2022/23 (£948,000). However, mindful of the 'bounce back' effect from the pandemic in 2021/22 and 2022/23, caution has been exercised in this MTFP regarding income expectations in 2023/24 onwards (e.g. with £750,000 currently assumed for 2023/24).
- **Grants** – as reported in October 2021, 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. It should be noted that greater clarity is expected to emerge here with the announcement of the Local Government Finance Settlement for 2022/23 (imminently anticipated in December 2021), which will be reflected in the next iteration of the draft budget for 2022/23 and updated MTFP in February 2022.

Members should also note the temporary inclusion of £177,000 in respect of the cost of the 1.25% uplift in Employers' National Insurance contributions for 2022/23 announced by the Chancellor; the announcement was accompanied by a pledge to compensate public sector employers for the additional cost, although further details are still awaited; it is likely that – although the funding should remain – there will be a reclassification of this item in the next iteration of this MTFP.

- **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** – the Government support that the Council has received during the pandemic, is expected to be discontinued. No Government support is assumed in 2022/23 and beyond and the position remains unchanged compared to the October 2021 MTFP; and
- **Use of Reserves** – as reported to Cabinet and the Stronger Council Select Committee in October/November 2021, the Council's General Fund Reserve is now very close to its adopted minimum contingency balance of £4.0 million and is expected to temporarily fall below this level at the end of 2021/22. Consequently, there are no longer any surplus funds available to support any of the budgets for the duration of this updated MTFP. However, the slightly improved position in 2023/24, as reported in Paragraph 3.5 above, does allow an assumed contribution of £300,000 into the Reserve in that year only.

4. Housing Revenue Account (HRA) MTFP

4.1 The October 2021 MTFP revealed a projected HRA deficit of £2.755 million for 2022/23 (broadly offset by an initial surplus of £2.651 million in 2021/22); The initial volatility between 2021/22 and 2022/23 was primarily due to a change in financing assumptions as part of the initial rollout of the new HRA Business Plan model compared to previously established assumptions. A very stable position was projected for 2023/24 onwards.

4.2 The October 2021 MTFP projections for the HRA can be summarised as follows:

Housing Revenue Account MTFP (@ October 2021)		
Financial Year	(Surplus)/Deficit	Comment
	£000's	
2022/23	2,755	Deficit substantially offset by assumed surplus of £2.651 million in 2021/22
2023/24	2	
2024/25	0	
2025/26	2	Assumed £900,000 saving from Qualis re Housing Repairs
2026/27	(1,918)	

4.3 The updated MTFP (2022/23 through to 2026/27), reflecting an initial draft HRA budget for 2022/23, is illustrated in the table below.

HRA MTFP illustration (@ December 2021)						
Description	2022/23 (OCT 2021 MTFP)	2022/23 (INITIAL DRAFT BUDGET)	2023/24	2024/25	2025/26	2026/27
	£000's	£000's	£000's	£000's	£000's	£000's
Employees	4,455	3,980	4,100	4,223	4,349	4,480
Premises	3,457	3,614	3,759	3,856	3,934	4,012
Transport	69	71	74	76	77	79
Supplies & Services	943	1,577	1,135	1,037	1,262	961
Contracted Services	6,107	6,704	7,117	7,384	6,602	6,722
Support Services (GF Recharges)	4,578	5,225	5,344	5,466	5,591	5,716
Debt Management Expenses	58	58	61	62	63	65
Bad Debt Provision	92	93	100	108	110	113
Depreciation	8,958	8,958	9,137	9,320	9,506	9,696
Total Expenditure	28,717	30,280	30,825	31,531	31,494	31,844
Rental Income – Dwellings	(34,833)	(35,124)	(37,744)	(40,704)	(41,447)	(42,805)
Rental Income – Non-Dwellings	(827)	(836)	(869)	(892)	(909)	(928)
Fees & Charges (charged for services)	(1,500)	(1,516)	(1,610)	(1,652)	(1,683)	(1,744)
Other Contributions (shared amenities)	(364)	(368)	(383)	(393)	(401)	(409)
Total Income	(37,574)	(37,844)	(40,606)	(43,641)	(44,440)	(45,886)
Net Cost of Services	(8,857)	(7,564)	(9,781)	(12,110)	(12,946)	(14,042)
Interest Received	(4)	(5)	(2)	(1)	(1)	(2)
Financing Costs	5,595	5,618	6,269	6,865	7,172	7,283
Net Operating Income	(3,266)	(1,951)	(3,514)	(5,246)	(5,775)	(6,761)
<i>Appropriations:</i>						
HRA Contributions to Capital	6,021	4,914	3,499	5,212	5,725	5,142
Contributions to/(from) Reserves	0	0	0	0	0	0
Total Appropriations	6,021	4,914	3,499	5,212	5,725	5,142
(Surplus)/Deficit	2,755	2,963	(15)	(34)	(50)	(1,620)

- 4.4 As presented in **Appendix A**, the originally forecast £2.755 million HRA deficit for 2022/23 (offset by an estimated £2.651 million surplus in 2021/22) identified in the October 2021 MTFP has now been eliminated.
- 4.5 Further work on the Council's emerging HRA Business Plan enabled a range of detailed refinements to be made to the 2022/23 figures (covered in **Appendix A**). This has marginally increased the projected 2022/23 deficit to £2.963 million. However, the rest of the MTFP – from 2023/24 through to 2026/27 – presents a very stable position, with a generally breakeven position now projected for the 3-year period 2023/24 through to 2025/26, followed by a significant surplus in 2016/27 (now estimated at £1.620 million compared to £1.918 million in October 2021).
- 4.6 As discussed in **Appendix A**, officers are still refining the HRA Business Plan using the "Fortress" model and the completion of the Stock Condition Survey remains a major priority as, once complete, it will further enhance the accuracy of the outputs from the model and will also enable the Plan to be extended from 30 to 40 years; this will help inform future iterations of the HRA MTFP.