

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

*Updated February 2022*

### 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 third (and final) 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 final 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 reflecting 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 initial draft budget proposals presented to Cabinet on 6th December 2021 addressed the original deficit identified in October 2021, to achieve an early balanced position. However, the Local Government Finance Settlement for 2022/23 had not been announced at that point; a range of interim assumptions therefore had to be made.

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

Financial Year	(Surplus)/Deficit	Comment
	£000's	
2022/23	0	No Gov Covid support (£1.263 million in 2021/22) + no Use of Reserves (£1.350 million in 2021/22)
2023/24	80	Included £0.3 million Contribution to Reserves
2024/25	922	New Waste Management contract from 1st December 2024
2025/26	1,250	
2026/27	362	

3.4 The Government subsequently announced the Local Government Finance Settlement for 2022/23 on 16th December 2021, and further work has been done by Finance officers on a range of issues (discussed in detail in **Appendix A**). This has enabled the initial draft budget to be refined and 're-balanced' for final consideration by Cabinet at this meeting. The updated MTFP (2022/23 through to 2026/27), reflecting the final draft General Fund budget for 2022/23, is illustrated in the table below.

<b>General Fund MTFP illustration (@ February 2022)</b>						
<b>Description</b>	<b>2022/23 (INITIAL DRAFT) Dec. 2021</b>	<b>2022/23 (FINAL DRAFT) Feb. 2022</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>NET EXPENDITURE</b>						
Employees	25,525	25,227	25,964	26,723	27,505	28,310
Premises	2,828	2,894	2,952	3,011	3,071	3,133
Transport	321	321	327	334	340	347
Supplies & Services	9,042	9,503	9,694	9,910	10,112	10,312
Support Services	19	19	19	20	20	21
Contracted Services	6,801	7,267	7,465	8,102	9,058	9,149
Transfer Payments	22,210	22,210	19,654	17,609	15,973	14,665
Financing Costs	2,263	2,204	3,130	3,939	4,107	4,289
<b>Gross Expenditure</b>	<b>69,009</b>	<b>69,645</b>	<b>69,205</b>	<b>69,648</b>	<b>70,186</b>	<b>70,226</b>
Fees & Charges	(17,474)	(17,244)	(17,518)	(18,045)	(18,407)	(18,775)
Government Contributions	(24,277)	(24,269)	(21,713)	(19,668)	(18,032)	(16,723)
Miscellaneous Income (inc. Qualis)	(4,462)	(4,187)	(5,658)	(5,303)	(5,094)	(4,897)
Other Contributions	(2,426)	(3,089)	(3,090)	(3,090)	(3,090)	(3,090)
HRA Recharges	(5,225)	(5,225)	(5,344)	(5,466)	(5,591)	(5,716)
<b>Net Expenditure</b>	<b>15,145</b>	<b>15,631</b>	<b>15,882</b>	<b>18,076</b>	<b>19,972</b>	<b>21,025</b>
<b>FUNDING</b>						
Council Tax	(8,639)	(8,639)	(9,179)	(9,644)	(10,108)	(10,577)
Business Rates	(5,016)	(5,011)	(5,111)	(5,213)	(5,317)	(5,424)
Collection Fund Adjustments	150	(165)	0	0	0	0
Council Tax Sharing Agreement (CTSA)	(948)	(948)	(750)	(765)	(780)	(796)
New Homes Bonus	(452)	(776)	0	0	0	0
L-T Services Grant	0	(149)	0	0	0	0
2022/23 Services Grant	0	(229)	0	0	0	0
Other Grants	(189)	0	0	0	0	0
Credit Loss Adjustment	(51)	(51)	(51)	(51)	(19)	0
Contribution to/(from) Reserves	0	337	0	0	0	0
<b>Total Funding</b>	<b>(15,145)</b>	<b>(15,631)</b>	<b>(15,091)</b>	<b>(15,673)</b>	<b>(16,224)</b>	<b>(16,797)</b>
<b>In-Year (Surplus)/Deficit</b>	<b>0</b>	<b>0</b>	<b>791</b>	<b>1,612</b>	<b>1,345</b>	<b>480</b>
<b>Cumulative (Surplus)/Deficit</b>	<b>0</b>	<b>0</b>	<b>791</b>	<b>2,403</b>	<b>3,748</b>	<b>4,228</b>

3.5 As presented in **Appendix A**, the initially balanced General Fund budget for 2022/23 presented in the December 2021 MTFP has now been 're-balanced'. It is a complex exercise to draw detailed comparisons between the different 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 (2023/24) and 3 (2024/25) as follows:

- **2023/24 (£0.791 million deficit)** – this position has deteriorated compared to the projected deficit of £0.080 million in the December 2021 MTFP. There are a wide range of factors that have contributed to an increase in Net Expenditure in 2022/23 (explained in **Appendix A**), which roll forward into 2023/24. This includes changed assumptions on Qualis loans as well as substantial cost pressures on the Waste Management contract. The revenue costs of the General Fund Capital Programme are also beginning to build in the medium-term (and especially the need to set aside increasing amounts for principal repayments on loans, known as "MRP"). The 2023/24 funding position has also worsened since December 2021. It was assumed then that Government compensation for the forthcoming 1.25% increase in National Insurance (NI) Contributions would be consolidated in base funding. However, the Government has since made clear that the "2022/23 Services Grant" of £229,580, which includes the NI compensation, is for one year only (the December 2021 MTFP had assumed £177,000 for NI for 2023/24); and
- **2024/25 (£1.612 million deficit)** – this is up by £0.689 million compared to a projected deficit of £0.922 million in the December 2021 MTFP, and illustrates the impact of the increased deficit in 2023/24 (in reality, the Council has to set a balanced budget for 2023/24, so will have to eliminate the £0.791 million deficit).

3.6 Overall the broad profile in this iteration of the MTFP remains similar to previous iterations, although the peak annual budget pressure (of £1.612 million) moves forward one-year to 2024/25, as the anticipated letting of the new Waste Management contract begins to take effect.

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 December 2021 was 5.4%. This is up from the 4.2% October 2021 rate reported to Cabinet in December 2021 and is the highest recorded UK inflation rate since March 1992. At the time of preparing this budget, the Bank of England's Monetary Policy Report for February 2022 is awaited (their November 2021 anticipated 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, as in the December 2021 iteration, a 3.0% annual increase is assumed.
- **Growth** – a small Growth item (of £40,000) was eventually included in the December 2021 initial draft budget proposal for 2022/23 (for "Highways Rangers" – covered in **Appendix A**). The budget provision for this initiative has been amended (to £90,000) in this – the final draft – budget. 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 partly due to the new Leisure Centre but also due to profiled spending on assets with shorter expected useful lives (notably ICT and vehicle replacements).
- **Qualis Income** – as reported in **Appendix A**, a significant ‘prudency adjustment’ has been included in the 2022/23 budget, which allows for 3 months slippage in the drawdown profile of the loans. No prudency adjustments have been included for 2023/24 onwards.
- **Fees and Charges** – as reported elsewhere (in **Appendix A**), income from Fees and Charges has recovered well (from the effects of the pandemic) in 2021/22. 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** – as reported in December 2021, 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** – the original assumption that the Council will increase the Council Tax by £5 for a Band D property for the duration of the MTFP still remains. This is currently the maximum amount allowable. Such increases generate estimated annual funding increases of around £275,000. Members of course have the option to alter this assumption
- **Business Rates** – as explained in **Appendix A**, the Council has (not yet) been unable to generate reliable “NNDR1” forecasting data for 2022/23 from the Revenues (“Academy”) system. Consequently, the estimated income for Business Rates Retention presented in December 2021 has been reviewed and remains virtually unaltered; it is a deliberately prudent estimate.

The Chancellor announced a freeze in the Multiplier in the Autumn Budget on 27th October 2021; it has now been confirmed that the Council will receive 100% compensation for this through Section 31 grant in the usual way.

Business Rates projections for 2023/24 onwards follow ‘standard inflationary assumptions.

- **Collection Fund Adjustments** – 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. In contrast, a one-off surplus distribution of £165,000 from Council Tax is anticipated in 2022/23. Collection Fund adjustments for 2023/24 onwards are assumed to be neutral.
- **Council Tax Sharing Agreement (CTSA)** – as reported in December 2021, 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 again been exercised in this MTFP regarding income expectations in 2023/24 onwards (e.g. with £750,000 currently assumed for 2023/24).
- **Grants** – as previously reported, 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 in early 2021. 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. In December 2021, legacy payments of £451,720 were assumed in 2022/23 only, with nothing beyond. However, as discussed in **Appendix A**, the Local Government Finance Settlement 2022/23 also included a further one-off NHB allocation of £323,790.

The Local Government Settlement 2022/23 also included a further Lower-Tier Services Grant allocation of £149,386 and a “2022/23 Services Grant” allocation of £229,580. The Government has made clear that the Local Government Finance Settlement 2022/23 is a single year settlement only. Consequently, no income from Government grants is assumed from 2023/24 onwards.

- **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); it is a technical accounting approach developed with the support of our Treasury Management advisors, Arlingclose and remains unchanged in this iteration of the MTFP.
- **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 both the October and December 2021 MTFPs; 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. A one-off contribution of £337,000 to the General Fund Reserve is assumed in 2022/23 (see **Appendix A** for full discussion).

**4. Housing Revenue Account (HRA) MTFP**

4.1 The December 2021 MTFP revealed a projected HRA deficit of £2.963 million for 2022/23 (broadly offset by an initial budgeted surplus of £2.651 million in 2021/22); The initial volatility between 2021/22 and 2022/23 (as presented back in October 2021) 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 December 2021 MTFP projections for the HRA can be summarised as follows:

<b>Housing Revenue Account MTFP (@ December 2021)</b>		
<b>Financial Year</b>	<b>(Surplus)/Deficit</b>	<b>Comment</b>
	<b>£000's</b>	
2022/23	2,963	Deficit substantially offset by assumed surplus of £2.651 million in 2021/22
2023/24	(15)	
2024/25	(34)	
2025/26	(50)	Assumed £900,000 saving from Qualis re Housing Repairs
2026/27	(1,620)	

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

HRA MTFP illustration (@ February 2022)						
Description	2022/23 (INITIAL DRAFT BUDGET) Dec. 2021	2022/23 (FINAL DRAFT BUDGET) Feb. 2022	2023/24	2024/25	2025/26	2026/27
	£000's	£000's	£000's	£000's	£000's	£000's
Employees	3,980	4,385	4,517	4,652	4,792	4,935
Premises	3,614	3,594	3,737	3,834	3,911	3,989
Transport	71	70	72	74	76	77
Supplies & Services	1,577	1,608	1,166	1,070	1,295	995
Contracted Services	6,704	6,682	7,099	7,411	6,675	6,811
Support Services (GF Recharges)	5,225	5,225	5,344	5,466	5,591	5,716
Debt Management Expenses	58	58	61	62	63	65
Bad Debt Provision	93	93	100	108	110	113
Depreciation	8,958	8,958	9,137	9,320	9,506	9,696
<b>Total Expenditure</b>	<b>30,280</b>	<b>30,673</b>	<b>31,233</b>	<b>31,997</b>	<b>32,019</b>	<b>32,397</b>
Rental Income – Dwellings	(35,124)	(35,124)	(37,744)	(40,704)	(41,447)	(42,805)
Rental Income – Non-Dwellings	(836)	(836)	(869)	(892)	(909)	(928)
Fees & Charges (charged for services)	(1,516)	(1,779)	(2,103)	(2,202)	(2,289)	(2,606)
Other Contributions (shared amenities)	(368)	(368)	(383)	(393)	(401)	(409)
<b>Total Income</b>	<b>(37,844)</b>	<b>(38,107)</b>	<b>(41,099)</b>	<b>(44,191)</b>	<b>(45,046)</b>	<b>(46,748)</b>
<b>Net Cost of Services</b>	<b>(7,564)</b>	<b>(7,434)</b>	<b>(9,866)</b>	<b>(12,194)</b>	<b>(13,027)</b>	<b>(14,351)</b>
Interest Received	(5)	(6)	(2)	(1)	(1)	(1)
Financing Costs	5,618	5,613	6,260	6,860	7,172	7,285
<b>Net Operating Income</b>	<b>(1,951)</b>	<b>(1,827)</b>	<b>(3,608)</b>	<b>(5,335)</b>	<b>(5,856)</b>	<b>(7,067)</b>
<i>Appropriations:</i>						
HRA Contributions to Capital	4,914	5,364	3,612	5,336	5,858	5,792
Contributions to/(from) Reserves	0	0	0	0	0	0
<b>Total Appropriations</b>	<b>4,914</b>	<b>5,364</b>	<b>3,612</b>	<b>5,336</b>	<b>5,858</b>	<b>5,792</b>
<b>(Surplus)/Deficit</b>	<b>2,963</b>	<b>3,537</b>	<b>4</b>	<b>1</b>	<b>2</b>	<b>(1,275)</b>

- 4.4 Further work on the detailed budget assumptions in the initial draft budget has resulted in a limited number of refinements to the 2022/23 figures (covered in **Appendix A**). This has increased the projected 2022/23 deficit to £3.537 million (up from £2.963 million in December 2021). However, the rest of the MTFP – from 2023/24 through to 2026/27 – continues to present a very stable position, with a breakeven position still projected for the 3-year period 2023/24 through to 2025/26, followed by a significant surplus in 2026/27 (now estimated at £1.275 million compared to £1.620 million in December 2021).
- 4.5 As discussed in **Appendix B**, 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.