

## Report to the Cabinet

**Report reference:** C-019-2022/23  
**Date of meeting:** 10th October 2022



**Portfolio:** Finance – Cllr J Philip  
**Subject:** Updated Medium-Term Financial Plan 2023/24 to 2027/28  
**Responsible Officer:** Andrew Small (01992 564278)  
**Democratic Services:** Adrian Hendry (01992 564246)

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### Recommendations/Decisions Required:

1) To note the contents of the report, including:

- The General Fund element of the updated Medium-Term Financial Plan (2023/24 to 2027/28) (*Appendix A*); and
- The Housing Revenue Account element of the updated Medium-Term Financial Plan (2023/24 to 2027/28) (*Appendix B*).

2) Discuss and agree any actions required, including the assumptions contained in the MTFP and the potential options for addressing the underlying budget deficit in order to set a balanced budget for 2022/23.

### Executive Summary:

The Cabinet approved an updated Financial Planning Framework (2023/24 to 2027/28) at its meeting on 30th September 2022 and committed to receiving and considering and updated Medium-Term Financial Plan (MTFP) for 2023/24 to 2027/28.

The preparation of an MTFP provides the cornerstone on which the Council can build and deliver services in accordance with its aims and objectives. It also provides an early warning sign of potential budget pressures that lie ahead.

This is the first iteration of the MTFP within the 2023/24 budget cycle. It is a forward-looking document which provides a tentative look at the Council's financial picture over the next five years (2023/24 through to 2027/28) and sets the scene by providing a framework for developing both the General Fund and Housing Revenue Account (HRA) budgets for 2023/24.

The General Fund element of the MTFP can be found at **Appendix A**. It reveals a projected deficit of £4.126 million in 2023/24. This reflects major spending pressures – driven by inflation – (for example) on Employees and Supplies & Services, which is exacerbated by an anticipated drop in Government grants of £1.154 million. Estimated net expenditure in 2023/24 is £19.402 million, compared to available funding of £15.276 million. The Council is required to eliminate this deficit and set a balanced budget for 2023/24 in February 2023.

The projections are summarised in the table below.

General Fund MTFP (@ October 2022)		
Financial Year	(Surplus)/Deficit	Comment
	£000's	
2023/24	4,126	Assumed drop in Government grants of £1.154 million
2024/25	1,399	New Waste Management contract assumed with effect from 1st December 2024
2025/26	1,439	
2026/27	996	
2027/28	654	

The HRA element of the MTFP can be found at **Appendix B**. It reveals a broadly balanced position over the five-year period 2023/24 to 2027/28, with an initial surplus of £0.682 million anticipated in 2023/24, followed by a series of smaller deficits (totalling £0.767 million). However, this is achieved through substantially reining back HRA Contributions to Capital in order to maintain a minimum HRA balance of £2.0 million as determined in the HRA Business Plan. This drives up the need for external borrowing to fund the Housing Development Programme and is reflected in a stepped increase in Financing Costs from 2024/25 onwards.

The table below provides a summary.

Housing Revenue Account MTFP (@ October 2022)		
Financial Year	(Surplus)/Deficit	Comment
	£000's	
2023/24	(682)	
2024/25	216	
2025/26	296	53 Week Rent Year Assumed £900,000 saving from Qualis re Housing Repairs
2026/27	129	
2027/28	126	

However, the HRA assumptions presented above have been fed into the "Fortress" (HRA Business Plan) model to determine the long-term impacts on financial sustainability of such a strategy. Critically, the initial results show that by Year 11 (2033/34) the HRA Business Plan begins to become increasingly unviable with the increasing servicing costs of rising borrowing leading to some breaches of pre-set parameters, including the minimum HRA balance of £2.0 million and a target interest cover level of 1.25%.

The primary cause of the problem is the current imbalance between a capped Rent Increase of 5.0% assumed for 2023/24 and 2024/25, sharply rising Interest Rates and high General Inflation (assumed to be as high as 12.0% initially).

The next stage in the process will see the assumptions and projections in both the General Fund and Housing Revenue Account further refined in accordance with the direction provided by Cabinet and emerging intelligence. Officers will begin to develop draft budget options for 2023/24, for consideration by Cabinet. This will include options for:

- Closing the General Fund budget gap; and
- Amending the HRA Business Plan strategy to restore long-term financial sustainability.

**Reasons for Proposed Decision:**

To provide an updated financial position for the Council based on latest available information, allowing Cabinet to consider the implications and potential options available, and provide strategic direction to senior officers in preparing a (balanced) draft budget for 2023/24.

**Legal and Governance Implications:**

The Council has a legal duty under the Local Government Finance Act 1992 to set a balanced budget. This report highlights a potential budget deficit on the General Fund that needs to be eliminated prior to setting the 2023/24 budget in February 2023.

**Safer, Cleaner and Greener Implications:**

There are no direct SCG implications contained within the report, although the implications will be considered in the detailed development of budget proposals.

**Consultation Undertaken:**

None. The proposals in the report require further development. Consultation at a later stage is an in-built feature of the proposed Financial Planning approach and timetable.

**Background Papers:**

None.

**Risk Management:**

The consideration of risk will form an integral part of the development of the proposals in the report. In particular, the MTFP is based on a series of estimates and assumptions that are informed by varying forms of intelligence (some certain, some uncertain); that process, including any residual risk in the decision-making process will be clearly indicated.