

Updated Medium-Term Financial Plan 2023/24 to 2027/28

GENERAL FUND*October 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 first iteration of the MTFP in the 2023/24 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 (2023/24 to 2027/28) and re-evaluates the position in the light of developments since the last MTFP (2022/23 to 2026/27) was adopted by the Council in February 2022.

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 2022 MTFP revealed a projected deficit of £0.791 million in 2023/24; this assumed no contributions either to or from the Council's general contingency reserves (following on from a one-off contribution to reserves of £337,000 in 2022/23). The full projections can be summarised as follows:

Financial Year	(Surplus)/Deficit	Comment
	£000's	
2022/23	0	Assumed contribution of £337,000 to Reserves
2023/24	791	Assumed no contribution to Reserves
2024/25	1,612	New Waste Management contract assumed with effect from 1st December 2024
2025/26	1,345	
2026/27	480	

2.4 The MTFP is deliberately concise, focussing on the most significant financial issues faced by Epping Forest District Council over the medium-term. As reported in the Financial Planning Framework 2023/24 to 2027/28 (Cabinet 30th September 2022) there are a range of major factors that are causing concern at the moment. This includes specific financial pressures on Staff Salaries, Energy, Contracts and Financing, as well general Supplies & Services which are impacting at a time when a significant reduction in the Local Government Settlement is already anticipated as a number of specific grants are withdrawn by the Government.

2.5 There are also further financial risks (not included in this MTFP) that may exacerbate the problem, including potentially new Employer Pension Contribution rates for the Local Government Pension Scheme (LGPS) as well as the threat to Commercial Property returns and funding from Local Taxation receipts as the economic crisis begins to affect local communities and businesses.

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 2022/23 General Fund base budget was adopted approved by the Council on 24th February 2022 and can be summarised as follows:

Description	2022/23 Budget
	£'s
Employees	25,227,465
Premises	2,894,190
Transport	320,648
Supplies & Services	9,503,217
Support Services	19,108
Contracted Services	7,267,159
Transfer Payments (Housing Benefits)	22,210,196
Financing Costs	2,202,940
Gross Expenditure	69,644,923
Fees & Charges	(17,243,654)
Government Contributions (including Housing Benefit Subsidy)	(24,268,814)
Miscellaneous Income (including Qualis)	(4,186,686)
Other Contributions	(3,089,740)
HRA Recharges	(5,224,665)
Net Expenditure	15,631,364

3.1.2 Net expenditure is funded as follows:

Description	2022/23 Budget
	£'s
Council Tax	(8,639,090)
Business Rates	(5,010,617)
Collection Fund Adjustments	(165,000)
Council Tax Sharing Agreement (CTSA)	(948,000)
<i>Non-Specific Grants:</i>	
New Homes Bonus	(775,510)
2022/23 Services Grant	(229,580)
Lower-Tier Services Grant	(149,386)
Credit Loss Adjustments	(50,970)
Contributions to/ (use of) Reserves	336,789
Total Funding	(15,631,364)

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 2023/24 and beyond, several areas of changed budgetary demand have been identified and are presented in the table below.

Appendix A

Medium-Term Increased/(Reduced) Budget Demand (@ October 2022)					
Description	2023/24	2024/25	2025/26	2026/27	2027/28
	£'s	£'s	£'s	£'s	£'s
Employees					
Health & Social Care Levy	(154,224)	0	0	0	0
Added Years/Unfunded Pensions	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
Premises					
Electricity	342,436	0	0	0	0
Gas	1,430	0	0	0	0
Energy Contingency (removal)	(62,500)	0	0	0	0
IT Refuse Removal	2,500	0	0	0	0
Supplies & Services					
Audit Fees (new PSAA contracts)	85,000	0	0	0	0
Insurance Cost Savings	(160,000)	0	0	0	0
Garden Town Contribution	68,000	0	0	0	0
Watchguard Authpoint	(13,900)	0	0	0	0
Mimecast (support and license)	14,000	0	0	0	0
Sava – Stock Assessor	(3,030)	0	0	0	0
Azure (hosting costs)	73,105	0	0	0	0
Switch Maintenance	7,000	(3,500)	(3,500)	0	0
Academy (“Cloud” costs)	38,067	0	0	0	0
“Xpress” (elections software)	3,240	0	0	0	0
GFI Events Manager (software)	50,500	0	0	0	0
Contracted Services					
Waste Contract (market price of recyclables)	(462,419)	0	0	0	0
New Waste Contract (Resources)	0	366,667	733,333	0	0
New Waste Contract (Recycling)	0	66,667	133,333	0	0
Transfer Payments					
Reduced HB Payments	0	0	(1,110,510)	(1,054,985)	(1,002,235)
Fees & Charges					
HMRC (rental loss)	684,000	0	0	0	0
Leisure Management Contract	(277,703)	(155,804)	(14,639)	294,233	(78,789)
Government Contributions					
Reduced HB Claim	0	0	1,110,510	1,054,985	1,002,235
Reduced HB Admin Subsidy	7,800	7,566	7,339	7,119	6,905
HRA Recharges					
Reduced Insurance Recharges	83,452	0	0	0	0
Net Increased/(Reduced) Budget Demand	306,754	261,595	835,867	281,352	(91,884)

3.2.2 The table above shows a net increase in budget demand of £306,754 in 2023/24, with further increases anticipated in 2024/25 (£261,595), 2025/26 (£835,867) and 2026/27 (£281,352). The major factors to note include:

- Health & Social Care Levy (2023/24 - £154,224 positive) – the Government announcement to reverse the recently introduced 1.25% National Insurance levy applies to both employees and employers. However, Members should note that the “2022/23 Services Grant” included funding for this purpose
- Electricity (2023/24 - £342,436 negative) – Property Services officers have undertaken a detailed review of Gas and Electricity costs. This has factored in the expiry of the Forward Energy Contracts that the Council has benefited from in 2022/23, and the latest protections afforded by the Energy Bill Relief Scheme (EBRS) recently announced by the Government and effective for six months with effect from 1st October 2022. The outcome for the General Fund is a significant cost pressure on Electric (rather than Gas)
- Insurance Cost Savings (2023/24 - £160,000 positive) – the recently completed Insurance re-tendering exercise has resulted in a significant reduction in Insurance Premiums (shared between the General Fund and the HRA)
- Waste Contract (recyclables) (2023/24 - £462,419 positive) – as reported in the Quarter 1 Budget Monitoring Report 2022/23, there is a structural surplus embedded within the base budget due to significant increases in market rates for the sale of recyclable material. Assuming market rates remain stable (or further increase) in the coming weeks, it appears safe at this stage to release this saving and reduce the base budget accordingly
- HMRC (rental loss) (2023/24 - £684,000 negative) – at the time of preparing this report, HMRC have given notice of their intent to discontinue the lease for the premises that they currently occupy at North Weald Airfield
- Leisure Management Contract (2023/24 - £277,703 positive) – the indexation provisions in the Leisure Management Contract result in a significant uplift in the anticipated Management Fee for 2023/24 (and 2024/25); 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 additional cost pressures of £1.3 million may result.

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 2022)					
Description	2023/24	2024/25	2025/26	2026/27	2027/28
	£'s	£'s	£'s	£'s	£'s
Employees	1,753,727	804,209	551,823	562,460	573,309
Premises	78,310	162,818	68,384	69,751	71,146
Transport	38,478	17,956	7,542	7,693	7,846
Supplies & Services	1,159,823	541,076	227,252	232,187	236,851
Support Services	2,293	1,070	449	458	468
Contracted Services	374,261	190,308	86,693	88,810	89,698
Financing Costs	536,560	0	0	0	0
Fees & Charges	(1,212,289)	(546,163)	(225,195)	(224,367)	(228,004)
HRA Recharges	(337,982)	(164,380)	(125,300)	(125,300)	(117,880)
Net Increased/(Reduced) Budget Demand	2,393,180	1,006,894	591,648	611,693	633,434

3.3.2 It should be emphasised that – at the time of preparing this report – there are still substantial uncertainties as to the future direction of inflation (although most commentators are suggesting that the peak has yet to be reached). Initial assumptions will be refined in the coming weeks as further intelligence emerges. The most recently available (August 2022) published CPI was 9.9% (down from 10.1% in July 2022) which – by way of context – compares to just 3.2% in August 2021.

3.3.3 An early planning assumption of 12.0% in general inflation has been applied for 2023/24, falling to 5.0% in 2024/25, before settling at 2.0% (the Bank of England's long-term inflation target) from 2025/26 onwards. This has been applied to Supplies & Services and a range of other non-staff budgets. Exceptions to note include:

- Employee Costs – a 4.0% pay increase has been assumed for 2023/24, which follows on from (at the time of preparing this report) an anticipated pay settlement of approximately 5.0% for 2022/23. However, the current base budget for 2022/23 was prepared based on an assumed pay award of just 2.0% (a 3.0% shortfall). As a consequence, the base budget increase of £1.754 million for 2023/24 highlighted in the table above in Paragraph 3.3.1, represents an uplift of 7.0% (3.0% + 4.0%). Thereafter a pay award of 3.0% has been assumed for 2024/25, following by 2.0% from 2025/26 onwards
- Premises Costs – a tailored approach has been applied to Premises costs. Specific increases have been calculated for Energy costs, with Business Rates liabilities assumed frozen. All other costs are assumed to follow the general rate of inflation; and

- Contracted Services – the Waste Contract is subject to an annual uplift based on October CPI (payable from November each year). An increase of 11.0% has been assumed at this stage for 2023/24 (just before the peak inflation assumption of 12.0%), followed by 5.0% in 2024/25 and 2.0% from 2025/26 onwards.

3.3.4 Given the current financial challenge that the Council faces, it has been assumed that (non-statutory) Fees and Charges will rise by an inflationary *average* of 12.0% (significant variations around the average can be expected). Car parking charges are non-statutory and potentially in scope. The level of Fees and Charges generally is something that Members will need to consider carefully, with the balance between generating additional revenue and maintaining service demand being a key consideration alongside the potential impact on local residents of rising prices.

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 re-evaluated in the light of latest intelligence. Prudence has been applied, especially with regard to assumptions from 2024/25 onwards, which means that the assumed drawdowns on the Development and Regeneration Loans have been temporarily extended (for prudent forecasting purposes) with £29.0 million included (facility £63.0 million) and £20.0 million included (facility £35.0 million) within the timeframe of this MTFP, respectively. Estimated loan margins have also reduced compared to the previous iteration of the MTFP as PWLB borrowing rates have increased significantly in recent weeks. The overall impact sees a reduced income assumption of £607,019 in 2023/24.

3.5.2 Financing costs have also risen in line with increasing "Minimum Revenue Provision" (MRP) charges and interest costs (based on Arlingclose forecasts).

3.5.3 All capital assumptions will be reviewed in detail, and revised as necessary, in preparing the draft budget and updated MTFP.

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 2022)					
Description	2023/24	2024/25	2025/26	2026/27	2027/28
	£'s	£'s	£'s	£'s	£'s
Council Tax	(257,750)	(171,632)	(159,664)	(157,460)	(150,000)
Business Rates	(501,062)	(275,584)	(115,745)	(118,060)	(120,421)
Collection Fund Adjustments	165,000	0	0	0	0
Council Tax Sharing Agreement	100,000	0	0	0	0
New Homes Bonus	775,510	0	0	0	0
2022/23 Services Grant	229,580	0	0	0	0
Lower-Tier Services Grant	149,386	0	0	0	0
Credit Loss Adjustments	31,000	19,970	0	0	0
Reserve Contributions	(336,790)	0	0	0	0
Net Increased/(Reduced) Budget Demand	354,874	(427,246)	(275,409)	(275,520)	(270,421)

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

- **Council Tax** – there is a provisional assumption that the Council will not increase the Council Tax above the current £157.46 charge for a Band D property for the duration of the MTFP. The additional Council Tax yield of £257,750 (in 2023/24) presented above reflects the anticipated growth in the tax base only. Members of course have the option to vary this assumption
- **Business Rates** – there is current uncertainty as to how the Business Rates Multiplier for 2023/24 will be treated; this usually increases by September CPI, but the default position is something that can be (and regularly has been) disregarded in the past, although the Government does have a track record of compensating councils through Section 31 grant in the event of freezes (or caps). On that basis, it is currently assumed that overall receipts from the Business Rates Retention (BRR) scheme will increase by 10.0% in 2023/24, followed by 5.0% in 2024/25, before eventually tailing off to 2.0% in 2025/26

- Collection Fund Adjustments – the lingering complexities created by the pandemic make an accurate estimate of the Collection Fund adjustment very difficult at this stage. However, as at 31st March 2022, the Council held an Earmarked Reserve of £3.450 million funded by surplus Section 31 money paid by Government as compensation for extended Business Rates Reliefs granted in response to the pandemic, which is used for the purposes of smoothing the impact of losses on the Collection Fund. Consequently, a ‘zero adjustment’ is assumed in 2023/24 (and beyond) for Business Rates at this stage. A neutral assumption is also assumed for Council Tax. Both assumptions will be reviewed in detail before the initial draft Budget for 2023/24 is presented to Cabinet in December 2022.
- Council Tax Sharing Agreement (CTSA) – the prospects for CTSA have stabilised recently with a new Essex agreement in place for 2023/24. However, current projections are suggesting that it would be prudent to reduce the current (2022/23) assumption by £100,000 from £948,000 to £848,000 for the duration of this MTFP.
- Grants – the Secretary of State originally indicated that, following a series of single year settlements in recent years, there will be a two-year settlement for 2023/24 and 2024/25. A two-year settlement would help with financial planning but – as yet – there are no clear indications of what the forthcoming settlement might contain (in the context of the economic crisis) or indeed whether the Government might revert to another one-year settlement.

In the absence of intelligence to the contrary, the assumptions reported to full Council in February 2022 still stand at this stage. Those assumptions were built into the forecast deficit of £0.791 million for 2023/24 in the MTFP as mentioned above in Paragraph 2.3. This included the cessation of the New Homes Bonus with effect from 2023/24, which has been a substantial source of Council funding for many years (the Council received £775,510 from this source in 2022/23). The Government made clear (at the time) that the other two remaining grants received in 2022/23 are one off in nature (the “Lower-Tier Services Grant” at £149,386 and the “2022/23 Services Grant” at £229,580). No specific grant funding is currently assumed in 2023/24; and

- Contribution to (from) Reserves – the 2022/23 budget included a one-off budgeted contribution of £336,790 to the General Fund Reserve based on the Council receiving a slightly higher than anticipated Government settlement. There are currently no assumed further contributions to or from the Reserve for the duration of this MTFP.

It should be noted that, as reported in the Quarter 1 2022/23 Budget Monitoring Report (Stronger Council Select Committee 26th September 2022 and Cabinet 30th September 2022), there is a projected overspend on the 2022/23 General Fund revenue budget, which – if this substantially materialises – would probably result in the General Fund Reserve falling below its adopted minimum contingency level of £4.0 million; in this situation, there is a potential requirement to replenish the Reserve, which 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 (2023/24 to 2027/28), is summarised in the table below.

Description	2022/23 BUDGET/ BASELINE	2023/24 BUDGET STRATEGY	2024/25	2025/26	2026/27	2027/28
	£000's	£000's	£000's	£000's	£000's	£000's
NET EXPENDITURE						
Employees	25,228	26,807	27,591	28,123	28,655	29,219
Premises	2,894	3,256	3,419	3,488	3,557	3,628
Transport	321	359	377	385	392	400
Supplies & Services	9,503	10,825	11,363	11,609	11,843	12,080
Support Services	19	21	22	23	23	24
Contracted Services	7,267	7,179	7,803	8,881	8,970	9,060
Transfer Payments	22,210	22,210	22,210	21,100	20,045	19,042
Financing Costs	2,203	3,204	3,713	3,860	4,024	4,166
Gross Expenditure	69,645	73,862	76,498	77,468	77,519	77,619
Fees & Charges	(17,243)	(18,050)	(18,752)	(18,991)	(18,922)	(19,228)
Government Contributions	(24,269)	(24,261)	(24,253)	(23,136)	(22,073)	(21,064)
Miscellaneous Income (including Qualis)	(4,187)	(3,579)	(3,531)	(3,539)	(3,325)	(3,085)
Other Contributions	(3,090)	(3,090)	(3,090)	(3,090)	(3,090)	(3,090)
HRA Recharges	(5,225)	(5,479)	(5,644)	(5,769)	(5,894)	(6,012)
Net Expenditure	15,631	19,402	21,229	22,943	24,215	25,140
FUNDING						
Council Tax	(8,639)	(8,897)	(9,068)	(9,228)	(9,386)	(9,536)
Business Rates	(5,011)	(5,512)	(5,787)	(5,903)	(6,021)	(6,141)
Collection Fund Adjustments	(165)	0	0	0	0	0
Council Tax Sharing Agreement (CTSA)	(948)	(848)	(848)	(848)	(848)	(848)
New Homes Bonus	(776)	0	0	0	0	0
2022/23 Services Grant	(229)	0	0	0	0	0
L-T Services Grant	(149)	0	0	0	0	0
Credit Loss Adjustment	(51)	(20)	0	0	0	0
Contribution to/(from) Reserves	337	0	0	0	0	0
Total Funding	(15,631)	(15,276)	(15,704)	(15,979)	(16,255)	(16,525)
In-Year (Surplus)/Deficit	0	4,126	1,399	1,439	996	654
Cumulative (Surplus)/Deficit	0	4,126	5,525	6,964	7,960	8,615

- 3.8.2 The table above shows a deficit of £4.126 million for 2023/24. This reflects major spending pressures – driven by inflation – (for example) on Employees (£1.579 million) and Supplies & Services (£1.322 million), 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.
- 3.8.3 Further budget gaps are expected beyond 2023/24, with notable deficits projected in 2024/25 (£1.399 million) and 2025/26 (£1.439 million) in particular, following the letting of the new Waste Management contract. The projected cumulative budget deficit by 31st March 2028 is £8.615 million.
- 3.8.4 It should be re-emphasised that these figures represent the first iteration of the MTFP in the 2023/24 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.