

Report to the Cabinet

Report reference: C-040-2020/21
Date of meeting: 16 November 2020



Portfolio: Finance and Economic Development – Cllr J. Philip
Subject: Medium Term-Financial Plan Development and Scene Setting
Responsible Officer: Andrew Small (07548 145665).
Democratic Services: Adrian Hendry (01992 564246).

Recommendations/Decisions Required:

- (1) To note the contents of the report, including *Appendix A (Medium-Term Financial Plan 2021/22 to 2025/26)*; and
- (2) Discuss and agree any actions required, including the assumptions included in the MTFP and the potential options for addressing the underlying budget deficit in order to set a balanced budget for 2021/22.

1. Executive Summary

- 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 their aims and objectives.
- 1.2 This is the first iteration of the MTFP within the 2021/22 budget cycle. It is a forward-looking document which provides a tentative look at the Council's financial picture over the next five years (2021/22 through to 2025/26) and sets the scene by providing a framework for developing the 2021/22 General Fund budget. Through the early consideration of the core issues it allows budget development activity to be focused over the next two months on refining assumptions and developing options.
- 1.3 The impact of the Covid-19 pandemic on Epping Forest District Council has had a huge impact on both operations and finances, with major losses being 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 has so far borne the brunt of the financial pressure, with the position being alleviated – to an extent – by emergency financial support from the Government. However, at the time of preparing this MTFP, it appears inevitable that the financial effects will continue well into 2021/22 and beyond and, in some cases, income streams may never recover to pre-pandemic levels.

1.4 Against this backdrop – where uncertainty reigns, and the country enters a second ‘lockdown’ – it is extremely challenging to prepare a robust budget for 2021/22. However, the importance of certainty and stability for local government is recognised by the Government, and no doubt will influence their forthcoming one-year Spending Review, which is set to be announced in late November 2020. The anticipated ‘roll over’ settlement for local government is cautiously anticipated.

1.5 **Appendix A** to this report includes a wide range of assumptions and financial projections covering the financial years 2021/22 to 2025/26. The outcome reveals an underlying budget deficit in the region of £4.1 million for 2021/22. An illustration of the position is also provided in which:

- Government support for Covid-19 is assumed to continue into 2021/22 – the Council has so far received £1,946,631 in general support funding from the Government in 2020/21 for Covid-19. In addition, a claim for £725,325 has been submitted for the four-month period April to July 2020 as part of the Government’s Statutory Fees and Charges (SFC) Compensation scheme; total funding from the SFC scheme could eventually reach around £2.0 million, which would bring overall Government support up to around £4.0 million for 2020/21. It is in that context that £1.0 million has been included as assumed Government support for 2021/22 on the basis that, even in the most optimistic scenario, the recovery from the impact of Covid-19 will not be instantaneous; and
- The temporary use of reserves is assumed for 2021/22 and 2022/23 – the Council has purposely retained contingency reserves to cover unexpected events. There is an opportunity therefore to utilise some of these reserves in order to ‘smooth’ the peak of the financial pressures expected in 2021/22 and 2022/23. Consequently, the use of £1.0 million and £0.5 million is assumed from the General Fund Reserve for 2021/22 and 2022/23 respectively.

1.6 The projections further indicate that 2022/23 is also likely to be a difficult year, although – as the pandemic recedes – it is (very tentatively) assumed that the financial pressure will gradually ease from 2023/24, although major uncertainty remains. The projections can be summarised as follows:

Financial Year	Deficit	Comment
2021/22	£2,110,256	Assumes £1 million Government support for Covid-19 + £1 million Use of Reserves
2022/23	£1,100,173	Assumes £1 million Use of Reserves
2023/24	£37,401	
2024/25	£98,678	
2025/26	£227,223	

1.7 The next stage in the process will see the assumptions and projections further refined in accordance with the direction provided by Cabinet and emerging intelligence. Officers will begin to develop draft General Fund budget options for 2021/22, including options (such as additional income generation or capturing organisational efficiencies) for closing the budget deficit, for consideration by Cabinet in December 2020.

1.8 At this stage, the Housing Revenue Account has so far been less adversely affected by the pandemic and therefore the process for developing and presenting a budget will be less complicated than for the General Fund.

2. Resource Implications

- 2.1. A wide range of financial implications are covered in the report, with the emphasis on how the Council can continue to fund its current net expenditure commitments, and deliver on its corporate priorities, within the anticipated level of financial resources available over the next five years.

3. Legal and Governance Implications

- 3.1. 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 that needs to be eliminated prior to setting the 2021/22 budget in February 2021.

4. Safer, Cleaner and Greener Implications

- 4.1. None.

5. Consultation Undertaken

- 5.1. None.

Medium-Term Financial Plan 2021/22 to 2025/26

(November 2020)

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 within the 2021/22 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 (2021/22 through to 2025/26) and sets the scene by providing a framework for developing the 2021/22 budget.

2.2 The MTFP is deliberately concise, focussing on the most significant financial issues faced by Epping Forest District Council over the medium-term. Two major factors currently dominate:

- *The 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 has had a massive impact on both operations and finances, with major losses being 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 has so far borne the brunt of the financial pressure, with the position being alleviated – to an extent – by emergency financial support from the Government. However, at the time of preparing this MTFP, it appears inevitable that the financial effects will continue well into 2021/22 and beyond and, in some cases, income streams may never recover to pre-pandemic levels; and

- *The Local Government Finance Settlement 2021/22* – for the past five 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. They are now set to be rolled forward for a further year into 2021/22, as part of the Chancellor’s one-year Spending Review, due to be announced in late November 2020.

2.3 Looking further ahead, although the key elements of the current Local Government Finance Settlement are set to be rolled forward again into 2021/22, there are a range of important variables to be determined within the local government funding regime expected to be introduced in 2022/23, including:

- Council Tax Referendum Limit
- Review of Relative Needs and Resources (previously referred to as the “Fair Funding Review”)
- Proportion of Business Rates retained by Local Government (currently 50%)
- The Business Rates Baseline (which dictates the amount of Business Rates that individual local authorities may retain locally); and
- Future of specific grants (e.g. New Homes Bonus).

2.4 Finally, the Government’s forthcoming Devolution White Paper is set to encourage the formation of further unitary authorities with elected mayors. It is therefore possible that there may be financial incentives for local government to reorganise along these lines, although it should be noted that this document – with a five-year timeframe – assumes that Epping Forest District Council will continue in its current format for the foreseeable future.

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 2020/21 General Fund base budget (@ 30th September 2020) – which excludes DDF funded expenditure – can be summarised as follows:

Description	2020/21 Budget
	£'s
Employees	21,852,700
Premises	3,589,340
Transport	575,110
Supplies & Services	8,586,630
Support Services	38,140
Contracted Services	6,415,170
Housing Benefits	29,532,280
Financing Costs	1,857,600
Gross Expenditure	72,446,970
Fees & Charges	(14,808,300)
Government Contributions (including Housing Benefit Subsidy)	(31,984,680)
Miscellaneous Income (including Qualis)	(3,963,778)
Other Contributions	(3,078,310)
HRA Recharges	(2,641,990)
Net Expenditure	15,969,912

3.1.2 Net expenditure is funded as follows:

Description	2020/21 Budget
	£'s
Council Tax	(8,343,922)
Business Rates	(5,254,868)
Collection Fund Adjustments	(895,832)
Council Tax Sharing Agreement (CTSA)	(669,780)
<i>Non-Specific Grants:</i>	
New Homes Bonus	(1,077,150)
Other	(12,405)
Contributions to/ (use of) Reserves	284,045
Total Funding	15,969,912

3.2 Increased/(Reduced) Budgetary Demand

3.2.1 Based on an initial high-level review of the current base budget, and anticipated budget demand in 2021/22 and beyond, several areas of changed budgetary demand have been identified and are presented in the table below.

Increased/(Reduced) Budget Demand					
Description	2021/22	2022/23	2023/24	2024/25	2025/26
	£'s	£'s	£'s	£'s	£'s
Employees	0	0	0	0	0
Premises	(358,934)	0	0	0	0
Transport	(115,022)	0	0	0	0
Supplies & Services	100,000	0	0	0	0
Housing Benefits	(2,362,582)	(1,086,788)	0	0	0
Fees & Charges	1,179,212	(938,739)	(1,103,565)	0	0
Government Contributions	2,385,406	1,097,287	0	0	0
Miscellaneous Income (inc. Qualis)	742,407	0	0	0	0
Totals	1,570,487	(928,240)	(1,103,565)	0	0

3.2.2 The table shows a net increase in budget demand of £884,000 in 2021/22 followed by significant reductions in 2022/23 and 2023/24. Significant factors to note in 2021/22 include the following:

- Premises (£358,934 reduction) – a 10% reduction in costs is assumed, following the reopening of the newly refurbished Civic Offices in the spring of 2021
- Transport (£115,022 reduction) – a step-change increase in remote working, prompted by the pandemic, is – to a large extent – expected to become a permanent feature, leading to a reduction in Transport costs
- Supplies & Services (£100,000 increase) – several IT licenses that the Council is required to maintain have been identified as being currently unfunded
- Housing Benefits (£2,385,406 reduction) – the 8% rate of migration of the Council’s current HB caseload onto Universal Credit is expected to continue into 2021/22 (eventually slowing and stabilising in 2023/24). It should be noted that the reduction in Housing Benefit payments will be matched by a reduction in “Government Contributions” (Housing Benefit Subsidy)
- Fees & Charges (£1,179,212 reduction) – the Covid-19 pandemic has had a profound impact on a range of Council fees and charges in 2020/21. These income sources are not expected to fully recover in 2021/22:
 - Leisure Centres – none of the annual Management Fee (£1,471,420) is expected to be received in 2021/22, with a 25% recovery assumed in 2022/23. A return to the full Management Fee is assumed in 2023/24
 - Car Parking – income is projected to be down by £500,000 in 2021/22 compared to the current budget, with a 50% recovery (generating an extra £250,000) assumed in 2022/23. However, due to an anticipated permanent reduction in commuter demand, no further recovery is assumed in 2023/24 and beyond
 - Planning Applications – income from Planning Applications is expected to bounce back to 80% of pre-pandemic levels in 2021/22, with a full recovery in 2022/23 anticipated; *however:*
 - Commercial Property – additional income of £1.06 million is assumed from recent/new Commercial Property acquisitions (most notably 200-226 High Road/associated flats and the Clifton Road car park in Loughton).
- Miscellaneous Income (£742,407 reduction) – current budget assumptions regarding Qualis income have been reviewed in the light of the most recent developments, with a stable income stream of £2.9 million assumed from 2021/22. This is largely associated with the original 2020/21 budget assumption that the recent property acquisitions would form part of the Qualis portfolio whilst, in practice, they have remained in Council control. The reduction in income here is matched by the increase in the previous bullet point creating a neutral position.

3.3 Inflation

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

Inflation					
Description	2021/22	2022/23	2023/24	2024/25	2025/26
	£'s	£'s	£'s	£'s	£'s
Employees	656,154	680,134	678,602	698,960	719,929
Premises	0	69,418	70,806	72,223	73,667
Transport	0	9,202	9,386	9,574	9,765
Supplies & Services	86,866	185,030	192,961	196,820	200,756
Support Services	381	770	786	802	818
Contracted Services	15,976	64,224	65,509	66,819	68,155
Fees & Charges	(136,291)	(294,082)	(322,035)	(328,476)	(335,046)
HRA Recharges	(58,124)	(70,203)	(72,028)	(73,901)	(75,822)
Totals	564,963	644,494	623,986	642,820	662,222

3.3.2 Inflation is initially constrained in 2021/22, mainly due to a CPI Inflation Rate of just 0.5% in September 2020, although inflation is expected to increase in the medium-term, becoming closer to the Bank of England's long-term 2.0% target.

3.3.3 The inflationary pressure on Employee costs is primarily driven by assumed annual pay awards of 3%, broadly in line with current expectations for future "NJC" pay awards. There are no known increases anticipated in National Insurance contributions. With regard to Pensions, as part of the agreed funding strategy following the 2019 triennial valuation – in return for a lower and stable contribution rate – the Council is committed to annual "Deficit Reduction Payments" of £580,526, £601,691 and £623,627 in 2020/21, 2021/22 and 2022/23 respectively; these are reflected in the figures. From 2023/24 onwards, the 2022/23 commitment is assumed to continue at the same level, although precise figures will not be confirmed until the 2022 triennial valuation is completed.

3.3.4 Energy and fuel price indices are currently showing low or negative growth, which is also constraining inflationary assumptions in 2021/22 on Premises and Transport costs.

3.3.3 It is currently assumed that Fees and Charges will increase by an average of 1% in 2021/22, picking up to 2% in 2022/23 and beyond. It should be noted that a significant proportion of the Council's fees and charges are statutorily determined. To achieve an average of 1% will require some individual fees and charges to be increased beyond this level.

3.4 Budget Growth

3.4.1 The table below reflects anticipated budget growth in 2021/22 and 2022/23.

Budget Growth					
Description	2021/22	2022/23	2023/24	2024/25	2025/26
	£'s	£'s	£'s	£'s	£'s
Employees	257,500	(140,000)	0	0	0
Premises	240,500	0	0	0	0
Transport	0	0	0	0	0
Supplies & Services	439,500	0	0	0	0
Miscellaneous Income	(267,000)	0	0	0	0
Totals	670,500	(140,000)	0	0	0

3.4.2 A range of priority commitments are reflected in 2021/22, including:

- Museum and Library Joint Facility (£235,000)
- North Weald Masterplan (£140,000)
- Environmental Projects (£80,000); and
- Neighbourhood Police (£72,000).

3.4.3 Planning-related developments (e.g. on Planning Performance Agreements) are expected to yield additional net income of £267,000 in 2021/22.

3.5 Revenue Consequences of Capital Programme

3.5.1 The Council's financing costs associated with the General Fund Capital Programme have been reviewed, with the additional budget requirement reflected in the table below.

Revenue Consequences of Capital Programme					
Description	2021/22	2022/23	2023/24	2024/25	2025/26
	£'s	£'s	£'s	£'s	£'s
Financing Costs	547,400	21,000	22,000	22,000	23,000
Totals	547,400	21,000	22,000	22,000	23,000

3.5.2 Interest rates are currently at historically low levels (e.g. the Bank of England base-rate was just 0.1% in October 2020), which is reflected in an assumed reduction in the Interest Receivable budget in 2021/22 from £100,000 to £25,000. However, lower interest rates have also constrained the budget assumption on Interest Payable with the budget assumed to rise in 2021/22 from £588,600 to £900,000, reflecting the Council's shift from debt free status on the General Fund to a net borrowing position.

3.5.3 In addition, the Council's treasury advisors Arlingclose have assisted in reviewing the Council's Minimum Revenue Provision (MRP) and have initially concluded that the Council will be required to set-aside an additional £398,000 for the repayment of principal on long-term borrowing.

3.5.4 It should be noted that it is assumed that capital schemes will be revenue neutral from 2022/23. Financing assumptions will be kept under review as the General Fund Capital Programme progresses in the weeks ahead.

3.6 Funding

3.6.1 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.

General Fund Funding					
Description	2021/22	2022/23	2023/24	2024/25	2025/26
	£'s	£'s	£'s	£'s	£'s
Council Tax	(223,758)	(345,591)	(463,384)	(467,948)	(465,362)
Business Rates	(214,820)	0	0	0	0
Collection Fund	1,273,037	(272,013)	0	(105,192)	0
Council Tax Sharing Agreement (CTSA)	169,780	(10,000)	(10,200)	(10,404)	(10,612)
Grants (inc. Covid support)	(983,880)	1,609,313	451,717	0	0
Contributions to/ (use of) Reserves	(1,284,045)	500,000	500,000	0	0
Totals	(1,263,686)	1,481,709	478,133	(583,544)	(475,974)

3.6.2 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 consistently generate increases in the base budget rising from around £200,000 in 2021/22 through to approaching £500,000 in 2025/26. A range of other Council Tax options are available, including a Council Tax freeze, although it should be noted that it is likely that a freeze in 2021/22 would lead to a reduction in the overall yield from Council Tax due to the rise in Local Council Tax Support (LCTS) cases created by the pandemic. The pandemic is also expected to reduce the amount of Council Tax collectable due to rising unemployment in the community
- Business Rates** – detailed projections of the estimated amount that the Council can expect to receive from the Business Rates Retention (BRR) scheme in 2021/22 have been completed. This results in an increase of £214,820, partly due to conservative budget expectations included in the 2020/21 budget. The future uncertainty of Business Rates should also be noted. Whilst a reset to the system, which could lead to a reduction in the Business Rates that the Council can retain in the future has been ruled out for 2021/22, the approach for 2022/23 and beyond has yet to be determined. On that basis, no increase is assumed in Business Rates for 2022/23 and beyond, which is consistent with the currently gloomy economic forecast for businesses in the light of the pandemic

- Collection Fund Adjustment – the detailed adjustments for both Council Tax and Business Rates have been completed. Unfortunately, this creates a significant (£1.3 million) budget pressure for 2021/22. This is due to the way in which the Collection Fund accounting system works whereby surpluses and deficits are paid or received based on forecast assumptions. In January 2020, significant surpluses for both Council Tax and Business Rates were anticipated for the 2019/20 year-end and were distributed to preceptors in 2020/21. However, subsequent events (most notably the pandemic) were not known about at the time, and actual balances on the Collection Fund were significantly lower than anticipated; the accounting rules require the shortfall compared to estimates to be recovered from preceptors – including Epping Forest District Council – in 2021/22
- Council Tax Sharing Agreement (CTSA) – lower than anticipated Council Tax collection levels are expected to reduce the income that the Council receives from the preceptors under the CTSA scheme, although a slow recovery is assumed from 2022/23 onwards
- 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 has intimated that the 2020/21 Settlement will ‘roll forward’ into 2021/22. On that basis it has been assumed that the ‘one-off’ award of £609,313 for 2020/21 will in fact continue for one more year into 2021/22. In addition, it is also assumed that the Government will continue to provide some financial support to local authorities during the recovery phase from the pandemic. Therefore (a cautious) £1.0 million is assumed in Government support for 2021/22 only; and
- Contribution to (from) Reserves – the Council has had a strong Balance Sheet for several years, which included a General Fund Reserve balance of £7.759 million at 31st March 2020. Although not sustainable in the longer-term, the option is available to smooth the impact of the current financial pressures by drawing on reserves. This recognises that some of the ongoing impacts of the Pandemic are likely to be temporary and the position is likely to recover gradually. This MTFP illustrates the impact of drawing on £1.0 million reserves in 2021/22, followed by £0.5 million in 2022/23. There are a wide range of other options/permutations available to Members.

3.7 Summary Position

3.7.1 After taking account of the projections made in Sections 3.2 to 3.6 above, the projected medium-term revenue position for the General Fund, is summarised in the table below.

MTFP Summary (@ November 2020)					
Description	2021/22	2022/23	2023/24	2024/25	2025/26
	£'s	£'s	£'s	£'s	£'s
Increased/(Reduced) Budget Demand (Section 3.2)	1,570,487	(928,240)	(1,103,565)	0	0
Inflation (Section 3.3)	564,963	644,494	623,986	642,820	662,222
Budget Growth (Section 3.4)	670,500	(140,000)	0	0	0
Revenue Consequences of Capital Programme (Section 3.5)	547,400	21,000	22,000	22,000	23,000
Council Tax (Section 3.6)	(223,758)	(345,591)	(463,384)	(467,948)	(465,362)
Business Rates (Section 3.6)	(214,820)	0	0	0	0
Collection Fund (Section 3.6)	1,273,037	(272,013)	0	(105,192)	0
Council Tax Sharing Agreement (CTSA) (Section 3.6)	169,780	(10,000)	(10,200)	(10,404)	(10,612)
Grants (including Covid Support) (Section 3.6)	(983,880)	1,609,313	451,717	0	0
Contributions to/ (use of) Reserves (Section 3.6)	(1,284,045)	500,000	500,000	0	0
In-Year (Surplus)/Deficit	2,110,256	1,100,173	37,401	98,678	227,223
Cumulative (Surplus)/Deficit	2,110,256	3,210,429	3,247,830	3,346,508	3,573,731

- 3.7.2 The table above shows a deficit of £2.1 million for 2021/22. However, the deficit presented illustrates the impact of assuming £1.0 million in Government support for Covid-19. It also assumes the drawing down of a further £1.0 million in Reserves. The underlying budget deficit is therefore £4.1 million for 2021/22. The Council will be required to eliminate any deficit and set a balanced budget for 2021/22 in February 2021.
- 3.7.3 The table also shows a difficult position in 2022/23 with an in-year budget shortfall of £1.1 million, although that is achievable with no Government support for Covid-19 and a draw down of £0.5 million from Reserves. From 2023/24 through to 2025/26 the position appears healthier, although it should be noted that longer range forecasts are, by their very nature, less reliable.