



**REPORT of
DIRECTOR OF RESOURCES**

**to
COUNCIL
22 FEBRUARY 2023**

MEDIUM-TERM FINANCIAL STRATEGY 2023 / 24 TO 2025 / 26

1. PURPOSE OF THE REPORT

- 1.1 To present the revised Medium-Term Financial Strategy for 2023 / 24 to 2025 / 26 to the Council 22 February 2023.

2. RECOMMENDATION

That the updated Medium-Term Financial Strategy for 2023 / 24 to 2025 / 26 (as at 26 January 2023) at **APPENDIX 1** be approved.

3. SUMMARY OF KEY ISSUES

- 3.1 The Medium-Term Financial Strategy (MTFS) sets out how the Council will manage its revenue finances up to the 2024 / 25 financial year. The MTFS supports the delivery of the Council's objectives and priorities as set out in the Council's Corporate Plan.
- 3.2 This MTFS builds on the MTFS for 2022 / 23 to 2024 / 25 that was approved by the Council on 24 February 2022. The current MTFS now covers the financial years 2023 / 24 to 2025 / 26 and is at **APPENDIX 1**.
- 3.3 There remains a great level of uncertainty around the global economy, particularly with an ongoing pandemic, and the impact this will have on the Council's finances, especially Council Tax and Business Rates. Therefore, the MTFS will need to be regularly updated and kept under review.

4. MEDIUM TERM FINANCIAL STRATEGY 2023 / 24 TO 2025 / 26

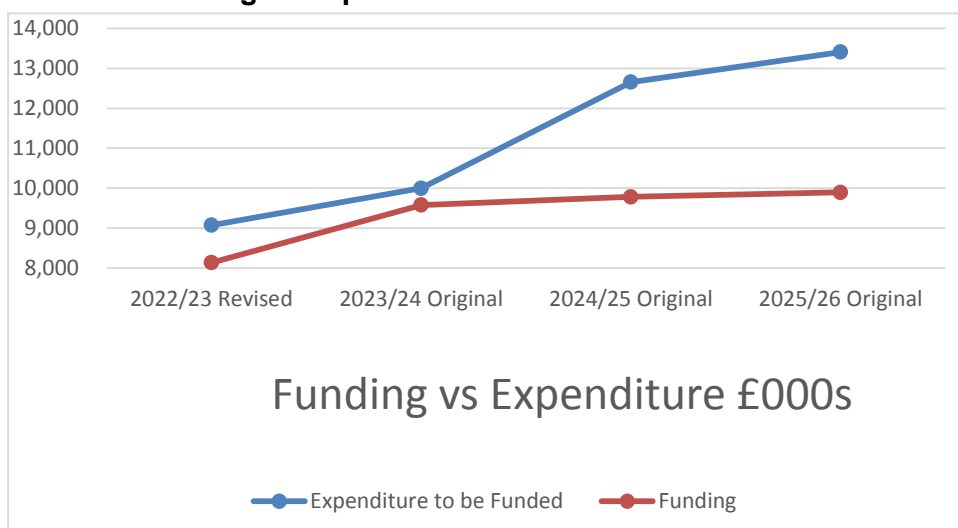
- 4.1 A review of budgets has been undertaken to identify changes required from the 2021/22 budget. The updated MTFS is attached at **APPENDIX 1** and a summary of the budget changes are provided in the following table.

Table 1 – MTFS Summary

| Components | 2022/23 Original £000 | 2022/23 Revised £000 | 2023/24 Original £000 | 2024/25 Original £000 | 2025/26 Original £000 |
|---|--------------------------------------|-------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Prior Year Exp to be Funded | 12,422 | 13,736 | 14,581 | 16,434 | 17,089 |
| Additional Inflation - including Salaries and Waste Contract | 648 | 0 | 1,855 | 669 | 490 |
| Contractual Pressures (Waste, Leisure and Audit) | 268 | 0 | 416 | 400 | 0 |
| 2021/22 Revenue Commitments and Additional Reserve Funded Expenditure | -409 | 359 | -359 | 0 | 0 |
| Repairs, Renewals and Supplementary Estimates | -53 | 486 | -353 | 0 | 0 |
| Original Growth | 444 | 0 | 56 | -394 | 0 |
| Increased Pension Service Costs | 870 | 0 | 693 | 0 | 0 |
| Savings and Increased Fees and Charges | -453 | 0 | -455 | -20 | 0 |
| Cost of Services | 13,736 | 14,581 | 16,434 | 17,089 | 17,579 |
| Investment Income | -214 | -214 | -750 | -660 | -400 |
| Forward Funding of Pension Fund Deficit | 0 | 0 | 351 | 0 | 0 |
| Statutory Adjustments | -3,200 | -3,200 | -3,893 | -3,893 | -3,893 |
| Contribution to Reserves | 520 | 520 | 0 | 120 | 120 |
| Contribution from Reserves for Commitments and Drawdowns | 0 | -359 | -1,040 | 0 | 0 |
| Contribution from Reserves for Growth | -546 | -546 | -343 | 0 | 0 |
| Contribution from Reserves for Collection Fund Deficit | -1,705 | -1,705 | -758 | 0 | 0 |
| Expenditure to be Funded | 8,591 | 9,077 | 10,001 | 12,656 | 13,406 |
| | | | | | |
| Funding | 8,139 | 8,139 | 9,580 | 9,784 | 9,899 |
| | | | | | |
| Gap / Funded from General Fund | 453 | 938 | 421 | 2,872 | 3,507 |

4.2 The summary shows higher expenditure this financial year due to approved in-year repairs, renewals and supplementary estimates. Improved investment income has mitigated this but a greater contribution from earmarked reserves is required to prevent a larger General Fund gap this financial year. In 2023 / 24 high inflation increases the budget significantly, however the removal of previous one-off growth items, new identified savings and a favourable provisional local government settlement for 2023 / 24, closes most of the funding gap. In 2024 / 25 inflation is offset by the end of the Local Development Plan (LDP) budget requirements. However, the LDP was a project funded from the New Homes Bonus (NHB) and Transformation reserves. Inflation is not, so creates a large budget deficit. Chart 1 below illustrates this below.

Chart 1 – Funding vs Expenditure



5. GROWTHS

- 5.1 During the budget review several budget growth items were identified as being required to meet service demand and carry out Council policy. These have been scrutinised by the Finance Working Group and the Strategy and Resources Committee. The specific details of these are available at **APPENDIX 2** and are summarised in the table below:

Table 2 – Growth Summary

| | 22/23 £000 | 23/24 £000 | 24/25 £000 | Total £000 |
|------------------------------------|---------------|---------------|---------------|---------------|
| Funded from Annual Budgets: | | | | |
| Head of Environment Services | 81 | 81 | 81 | 243 |
| HR Fixed Term Post | 39 | 0 | 0 | 39 |
| Customer Service Resource | 28 | 28 | 28 | 84 |
| Ezytreev Software | 12 | 0 | 0 | 12 |
| Changing Places Toilets | 5 | 5 | 5 | 15 |
| Members Training | 3 | 3 | 3 | 9 |
| Annual Budget Growth Total | 168 | 117 | 117 | 402 |

6. RISKS TO THE MTFS

- 6.1 Risks to the Council's financial position could derive potentially from budget overspends, loss of investment income, contractual / legislative failure, shortfall in forecast business rates growth or challenge and emergency events. Historically, the Council's outturn has been within budget and investment income has been above budget; therefore, this is not seen as a high risk to the Council and it is not necessary to make additional significant provision. However, robust budget management, monitoring and reporting will be a key discipline for all budget managers and ensuring that savings and income levels included in the budget are achieved, will be a key focus.
- 6.2 The level of risk posed by contractual or legislative failure and emergency events is difficult to predict, but it would be a low probability with a potentially high impact.

However, it is not appropriate to set aside large amounts of reserve against the possibility of this happening and that appropriate bond / Parent Company Guarantee have been built into large contracts.

- 6.3 It is important to recognise that with the introduction of the Business Rates Retention, there is a considerable degree of uncertainty in the forecast for business rates growth as much of it depends on external factors including the impact of successful appeals. The Council's own economic development policies can have an impact on business rates growth and therefore it is important that the planning services, economic development services and the business rates service have a co-ordinated approach to inward investment policies. It is important to ensure a high level of growth in the District, as any empty properties create a risk on the level of Business Rates income the Council will receive.
- 6.4 The current cost of living crisis driven by high inflation and increasing interest rates put a high degree of pressure on family and business budgets and this could affect households' and businesses' ability to pay Council Tax and National Non-Domestic Rates (NDR) respectively. This places a risk on local taxation collection rates.
- 6.5 The large contracts such Waste and Leisure Centres are impacted by our economic environment. The footfall through gyms at the Blackwater and Dengie Hundred Leisure Centres have not recovered as hoped after the Coronavirus pandemic, being now impacted by the cost-of-living crisis, meaning very low profits now that only generate a fraction of income for the Council they did pre-pandemic. Also, the Waste contract relies on recycling tonnage and prices, which are also volatile post pandemic. Furthermore, the contract expires in January 2024, so the new contract will need to be negotiated. Only then will we know the real impact on the MTFs but this MTFs assumes Leisure Centre income will not improve on its current returns and net Waste returns will fall by £100k from 2023 / 24.

7. GENERAL FUND

- 7.1 The impact of the items shown in Table 1 along with current year budget pressures on the General Fund balance is as follows:

Table 4 – Projected General Fund Balance

| | 22/23 | 23/24 | 24/25 | 25/26 |
|-------------------------------------|--------------|--------------|--------------|---------------|
| | £000 | £000 | £000 | £000 |
| Opening General Fund Balance | 5,796 | 4,720 | 4,298 | 1,426 |
| Budget Gap (Table 5) | -1,076* | -421 | -2,872 | -3,507 |
| Closing General Fund Balance | 4,720 | 4,298 | 1,426 | -2,081 |

*This figure is taken from Table 5, which takes into account the current net budget pressure of £138k for 2022 / 23, as reported to the Strategy and Resources Committee on 10 November 2022, combined with the budgetary movements shown in Table 1.

Table 5 – Predicted General Fund Balance

| | £000 |
|---|--------------|
| Less 2022 / 23 MTFs Funding Gap | (452) |
| Less Supplementary Estimates | (486) |
| Revised 2022 / 23 Budget Gap (Table 1) | (938) |
| Less Service Variances | (381) |

| | |
|---|----------------|
| | £000 |
| Plus Investment Income | 104 |
| Plus Local Tax Collection Improvement | 139 |
| Net Budget Pressure | (138) |
| Total Impact on General Fund Balance 2022 / 23 | (1,076) |

7.2 The projections in Table 4 show that the General Fund balances would fall below the recommended minimum of £2.6m by 2024 / 25 and would be fully depleted by 2025 / 26 if no action was taken to mitigate the position.

7.3 It must be emphasised that the current MTFS projections are unsustainable. The figures in Table 4 are based on a 'do nothing' scenario and assumptions. Therefore, actions will be required to address the budget gaps and develop a sustainability plan. Actions may include:

- (i) Closer working with partners - to address resilience and improve efficiency,
- (ii) Commercial activity - projects are underway but no income has been included in the budget at this stage.
- (iii) Service standards review - to ensure value for money.

8. CONCLUSION

8.1 Medium-Term financial planning is an important component of the Council's strategic planning framework. No more so than in the current uncertain economic climate due to the cost-of-living crisis and global affects from the ongoing war in Ukraine. Key financial decisions need to be set in the context of a plan that looks beyond the next financial year. Forward planning offers the opportunity to link service and financial planning, as decisions taken on an annual basis are limited in what they can achieve.

9. IMPACT ON STRATEGIC THEMES

9.1 The MTFS provides the foundation against which the Council will strive to deliver the best possible value for money in the provision of efficient and cost-effective services across the District. Through the effective development and delivery of the Council's financial and other resource strategies it seeks to build upon past achievements as well as provide clear direction to the attainment of the Council's longer-term goals.

10. IMPLICATIONS

- (i) **Impact on Customers** – None arising directly from this report.
- (ii) **Impact on Equalities** – None arising directly from this report.
- (iii) **Impact on Risk** – The risks to the Council in respect of the available forecast resource envelope over the medium term are discussed at **APPENDIX 1**.
- (iv) **Impact on Resources (financial)** – The financial implications are set out in this report.
- (v) **Impact on Resources (human)** – None arising directly from this report.

- (vi) **Impact on the Environment** – None arising directly from this report.
- (vii) **Impact on Strengthening Communities** – Considered along with Council's priorities as part of the Budget Setting and MTFS processes.

Background Papers:

MTFS to the Council, 24 February 2022

Budgetary Control Report to the Strategy and Resources Committee, 10 November 2022.

Discretionary Fees and Charges Report to the Council, 15 December 2022.

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