

MEDIUM TERM FINANCIAL PLAN 2023 ONWARDS

1. Recommendations

Cabinet are asked to;

- a) note the contents of the report and the updates to the Medium Term Financial Plan; and
- b) endorse the approach taken to set the Asset Maintenance and Replacement Programme and Capital Programme Budgets for 2024/25

2. Purpose of Report

- 2.1 To consider the ongoing development of the Medium Term Financial Plan 2023 onwards and consider the factors that will influence its delivery and that of the annual budget strategy 2024/25.

3. Background

- 3.1 The Council has a legal requirement to set an annual fully funded balanced budget and must plan its finances over a medium term period.
- 3.2 The Council's financial strategy seeks to achieve a balanced budget through the crystallisation of efficiencies from all services, supported with the targeting of new and additional income generation and align available financial resources, and create additional financial resources, to deliver on corporate priorities. Financial stability over the medium-to-long term has underpinned the Council's financial strategy, with due consideration being given to the potential implications that the Fair Funding Review, Business Rate Reset, and national rent setting policy will have on this Council. The Council has understood the need to consider its overall organisational business model in order to ensure the future protection of its services and aligns the financial plan to ensure its delivery of key priorities as outlined in the Corporate Plan.
- 3.3 Actions need to commence on the development of future years' budgets. To support this work it is necessary that an assessment is made of the likely financial scenario based upon latest available information. The October MTFP set a baseline position and is now updated for changes (including Council decisions) and reviews undertaken since. As explored further in section 4, uncertainty still surrounds the local government finance settlement, which is expected early-mid December.
- 3.4 The Chancellor delivered the 2023 Autumn Statement on the 22nd November. There was very little new in the Autumn Statement for local government in terms of core funding, but there were several items that we have a direct impact to the Council, our residents and businesses. In summary:
 - The Local Housing Allowance rate was increased to the 30th percentile of local market rents from April 2024. Government figures suggest that 1.6 million households will benefit, by an average of £800 a year, and so this should have a positive impact to homelessness and temporary accommodation.

- A new flexibility has been introduced to charge a premium for major planning application fees.
 - An additional £120 million has been identified to support homelessness prevention, including support to Ukrainian households.
 - A new £110 million Local Nutrient Mitigation Fund for councils to mitigate the impact of nutrient pollution in waterways and deliver additional homes that have been on hold
 - The preferential rate for HRA borrowing has been extended by a further 12 months (to June 2025)
 - The small business rate multiplier will be frozen for a fourth consecutive year at 49.9p (in the £1), while the standard multiplier will be uprated by CPI to 54.6p in March 2024.
 - Freeport tax incentives have been extended from 5 to 10 years.
 - The National Living Wage (NLW) for 2024/25 was confirmed at £11.44 per hour. It is likely the National Joint Council (NJC) will want to retain a meaningful headroom between this NLW and its minimum pay point (currently £11.59). This will have an impact on the thinking behind the NJC pay award offer for 2024/25, to be confirmed at a later date.
- 3.5 We won't know the specific implications to NFDC in terms of Finance Settlement funding support until the release of the Provisional Finance Settlement, which will be released mid-December.
- 3.6 The Bank of England base rate is currently 5.25%. In the short term, it will have a positive impact to the Council's interest earnings, but in the medium term, will impact on the cost of borrowing required to support the Capital Programme. The current rate will also impact on residents who have variable rate mortgages, and so could further increase immediate cost of living pressures.
- 3.7 Although still high, inflation has fallen from its peak as annual headline CPI (Consumer Prices Index) declined to 4.6% in October 2023 from 6.7% in September. The largest downward contribution in recent months has come from food prices and the cost of utilities.

Section 4: The General Fund

4a. Updated Medium Term Financial Plan

- 4a.1 The October MTFP outlined a forecast deficit to 2027/28 of £3.537M. This base MTFP assumption assumes an annual increase in Council Tax, aligned to the flexibilities allowed by central government policy, which contributes cumulative income growth of £1.522M to 27/28 (the forecast deficit otherwise would be in excess of £5M).
- 4a.2 Significant quantifiable changes to consider since the September reported position are as follows:

4a.2.1 Tax Base Growth

An assumption of tax base growth (new housing within the District) is factored into the medium term forecast as it results in additional Council Tax precept being collected. The calculated growth for 23/24, to feed into the 24/25 budget setting has been confirmed elsewhere on this Cabinet Agenda. The confirmed

growth of 99.7 (0.14%) band D equivalent properties is less than the forecast assumption, which was assuming growth of 0.5% for the year.

4a.2.2 Car Parking Fees and Charges

The Council took a decision to introduce new charges to take effect from the 1st January 2024. The impact to the MTFP as a result of this decision is to support the delivery of the MTFP by a net additional £1.020m per annum.

4a.2.3 ICT revenue costs

The Council is currently completing a project to migrate its servers to the Azure cloud. This model necessitates a new annual revenue cost, as opposed to a large cyclical one-off replacement of physical hardware. A change within the Council's ICT network has also been required in light of Hampshire County Council withdrawing from the HPSN Service Level Agreement. This has necessitated revised in-house arrangements for Virtual Public Network access and Internet firewalls, at an additional cost to the Council.

4a.2.4 External Audit Fees

The Council has entered a new contract with its external auditors, via the Public Sector Audit Appointments scheme, and will see an increase in budgetary requirement of £72,000. This is reflective of the increased scope that External Auditors are required to deliver in comparison to the previous contract price, as well as the price being intended to allow External Auditors to increase their resource to deliver external audits in a more timely fashion.

4a.3 The resultant latest summary financial position showing the cumulative forecast deficit to 2027/28 is demonstrated in Table 1:

Table 1 – Resultant Updated Forecast Deficit to 2027/28

	Forecast 24/25 £'000	Forecast 25/26 £'000	Forecast 26/27 £'000	Forecast 27/28 £'000
October MTFP Cumulative Forecast (Deficit) / Surplus	(425)	(1,023)	(2,771)	(3,537)
Adjustments Post October	666	664	662	661
Latest (Deficit) / Surplus	241	(359)	(2,109)	(2,876)

4b. Other Matters for further consideration

4b.1 Other significant matters are still very relevant to the Council as we approach the finalisation of the new Corporate Plan, and budget for the 2024/25 financial year. Matters include:

4b.1.1 Pay Award

Pay Award was significant in both 2022/23 and 2023/24, to the extent that it added a total of £3.64 million (£2.74 million to GF and £0.900 million to HRA) to the Council's overall pay bill in just 2 years. The base assumption within

detailed budget preparation is 3% for 2024/25, and 2% thereafter, with an added contingency included within the base budget for 2024/25.

4b.1.2 Waste Strategy

Absolute confirmation in relation to New Burdens funding is still outstanding, although recent events suggest that a degree of new burdens capital funding will be forthcoming in the current financial year, and that revenue new burdens funding will be forthcoming in due course. At this stage, the Council is still unaware of the value and longevity of any new burdens funding that was initially confirmed to cover the added cost of separate food waste collection. The forecast additional cost of this separate collection service is now £1.85 million PA, so significant in the context of the Council's General fund budget. A paper elsewhere on this agenda gives fuller detail on this subject.

4b.1.3 Leisure Centres

The Leisure contractual position is under pressure as a result of the significant increases in utilities and the slower than anticipated income return, undoubtedly linked to the current cost of living crisis. Council representatives on the Partnership Board continue to work closely with Freedom Leisure. It is worthy of note that increased contractual income as the Council enters into contract year 3 is able to facilitate an increase in the Leisure Centre maintenance budget for 2024/5; this is covered further in section 7 of this report.

4b.1.4 Solent Freeport

Work is ongoing with Senior Officers and Cabinet members in their various roles within the Freeport Consortium Board and Committees. A request to extend the period of tax break incentives, to align more closely with regional investment zones, was submitted to the Government and has now been accepted. With this extension, the proposition for meaningful development within the tax sites is much improved, compared to the original Sept 26 deadline.

4b.1.5 Local Plan Delivery

The Council needs to have an up to date Local Plan with review required every 5 years. The Council has set aside an initial sum of £370,000 within a specific reserve for this purpose, although this will be insufficient to cover the full cost of the new plan.

4b.1.6 Planning Fees and Charges

Notice was received on the 14th November that statutory planning fee increases would come into effect from 6th December 2024. Householder and minor application fees will increase by 25% and major application fees increase by 35%. Financial monitoring during 2023/24 has confirmed a slowdown in application numbers and so income. The yield from the fee increases will cover this re-basing of the income budgets to levels more consistent with those seen in 2023/24, and provide an additional c£130,000 annually for a 3 year period to contribute towards the cost of the Local Plan (outlined above).

4b.1.7 Regeneration Masterplan work

A Regeneration Vision for Totton has been produced. The next stage of the work will be to produce a detailed Masterplan and delivery Plan. It is highly likely that the Council will require a new budget, beyond the current £50,000 regeneration working budget as included within the original budget for 2023/24 to see through this work.

4b.1.8 Sustainability and Carbon Reduction

Over the period covered by this Medium- Term Financial Plan, the Climate and Nature Emergency actions will begin to be substantiated with financial implications that will need addressing in the budget cycle. Whilst there are no direct financial implications to include within this report (in addition to the annual £250,000 budgeted for sustainability projects), there is a likelihood that the February Budget will reflect on this level of funding and its suitability over the Medium Term.

4c. Use of headroom to invest in Corporate Plan Priorities

4c.1 Discussions have commenced at Senior Leadership level with the Portfolio Holders on resource gaps to deliver on emerging corporate plan priorities. Further information and clarity on where any budget headroom will be focused, including due consideration of the factors as included throughout section 4b, will be forthcoming in future budget planning reports as the Corporate Plan nears completion following consultation.

Section 5: The Housing Revenue Account

5a Updated Medium Term Financial Plan

5a.1 Plans are progressing with regards to the development of the HRA budget for 2024/25, which will include:

- The potential for additional income, as a result of new property developments and acquisitions and the Rent Setting Policy approved in February 2023.
- Additional income yield, based on the current policy of CPI +1%.
- Additional income from the second phase of the service charge review approved in February 2023.
- The additional costs of Pay Award and incremental progression.
- Cost pressures on external supplies and materials associated with the Consumer Price Index
- Cost and income pressures related to void properties, which have now seen an increase in number and cost over the last 3 financial years.
- New administrative requirements in relation to the Social Housing Regulation Act.

5a.2 The current rent policy of CPI+1% would result in a rent increase of 7.7% but it should be noted that last year the Government capped increases for 2023/24 at 7% rather than the 11.1% that would have applied under policy. Consultation on the increase for 2024/25 by the Government is therefore anticipated.

5a.3 The impact of every additional £1 spent in the revenue account is £1 less to provide funding to the large Housing Capital Programme or to fund the committed repayments on the existing borrowing. The 2023/24 budget currently shows a shortfall of £1.331 million in funding available to pay the £4.1m loan repayment, which effectively will need to be covered by new borrowing. The full detail behind the necessary budget changes as outlined above will be explored over the next couple of months during the detailed budget preparation stages.

- 5a.4 The Council has remained engaged with an external consultant to assist with the preparation and updating of the 30-year HRA business plan. It now starts to introduce additional costs to 2030 of £9 million - £15 million, as a result of the EPC-C target, which implicates around 3,000 HRA owned properties. Further updates will be presented to the Housing and Communities Overview and Scrutiny Panel as part of the budget consultation leading up to the adoption of the HRA budget in February.
- 5a.5 The Capital programme will include the significant Major Repairs Programme, continuing fire safety actions, increasing Disabled Facilities Grants and the continuation of the strategy to increase NFDC Council stock numbers. The Programme will follow a similar route to the General Fund programme in terms of having an initial review through the Capital and Change Board, followed by presentation at the Housing and Communities Overview and Scrutiny Panel, and ultimately onto Cabinet and Council as part of the formal budget setting process. The projects and financing will be fully explored in the updated Capital Strategy for 2024/25.
- 5a.6 The Capital Strategy and Investment Strategy will further explore the relationship between the outstanding loans held by the HRA, which as at the 31st March 2023 totalled £118 million, the current level of reserve balances, and the value of the proposed Capital Programme, to ensure the cost of debt is affordable over the short, medium and long term. This is likely to present a significant challenge considering the current interest rates applicable to external borrowing and the likely scale of the HRA Capital Programme required to 2030.

6. Fees and Charges

- 6.1 Following the adoption of the October MTFP and Fees and Charges policy for 2024/25 – 2026/27, work has commenced within services to review their fees and charges, including the basis of cost recovery on departments providing services to third parties. Further work will be ongoing as we approach February budget setting, and discussions will need to commence with third party partners as we enter the new financial year, to enable appropriate charging mechanisms to be adopted by the Council over the medium term.

7. Asset Maintenance and Replacement Programme

- 7.1 The General Fund budget for 2023/24 includes a budget for Asset Maintenance and cyclical Asset Replacement totalling £2.050M. Further pricing pressures on Vehicles and Plant have necessitated an increase of £200,000 for 2024/25. The additional income receivable through the Leisure Partnership with Freedom Leisure has enabled a top-up to the Leisure Maintenance budget of £300,000 (£250,000 to the AMR budget, and £50,000 to the Facilities Business Unit to enable programme and project delivery).
- 7.2 Table 2 demonstrates the indicative budgets for 2024/25, with the general £300,000 AMR budget to be allocated according to the priority order of bids submitted, as outlined further in paragraph 7.3 below;

Table 2 – Asset Maintenance and Replacement Budget Allowance and Indicative Budget for 2024/25

	2023/24 Budget Allowance £'000	2024/25 Budget Allowance £'000
Health & Leisure Centres (Landlord Maintenance)	500	750
ICT Replacement Programme	150	150
Other (Offices / Depots / Outlying Offices)	200	
Feasibility Surveys	10	
Deployable CCTV Cameras	15	
Contingency	65	
AMR Budget for 2024/25		300
Cyclical Replacement of Vehicles & Plant	1,450	1,650
Proportion Chargeable to the HRA	(340)	(350)
TOTAL	2,050	2,500

- 7.3 Service Managers were invited to submit their project requirements during the month of October, with the schedules collectively reviewed by the Capital and Change Board (CCB) in the first instance in November. Bids passed by the CCB will be shared with the Corporate Affairs and Local Economy Overview and Scrutiny Panel at its meeting in January.
- 7.4 At this stage via this report, the Cabinet is asked to endorse the approach taken to set the Asset Maintenance and Replacement Programme Budget for 2024/25.

8. Capital Programme & Reserves Held

- 8.1 Service Managers were invited to submit their project requirements during the month of October, with the schedules collectively reviewed by the Capital and Change Board (CCB) in the first instance in November. Bids passed by the CCB will be shared with the Corporate Affairs and Local Economy Overview and Scrutiny Panel at its meeting in January. The final proposed programme will be included in the Budget setting paper to Cabinet and Council during February.
- 8.2 The Capital reserves held by the Council to support the direct financing of the Capital Programme totalled £24.272 million as at 31/03/23 (a reduction in balance of £5.802 million in comparison to 31/3/22). Reserves held are split across the General Fund and HRA over various headings as follows:

Table 3 – Reserve Balances as at 31/3/23 Supporting the Capital Programme

	General Fund £'000	HRA £'000
Capital Programme	9,808	
Capital Receipts	2,381	3,805
Acquisitions and Development		8,278
TOTAL	12,189	12,083

- 8.3 The proposed programme to 2026/27 and financing will be fully explored in the updated Capital Strategy for 2024/25.
- 8.4 The Council will use flexibilities on the use of capital receipts to provide the funding for service transformation in waste collection, aligned with the new waste strategy.
- 8.5 The General Fund budget reserves remains in situ at £3M, and the HRA general reserve at £1M.

9. Crime and Disorder / Equality and Diversity

- 9.1 There are no direct implications as a result of this report, however, the Council's financial planning supports the aim of preventing and reducing crime and disorder within the District.

10. Environmental Implications

- 10.1 The Council's General Fund budget planning currently allows for £250,000 annually in the central sustainability fund, managed and overseen by the Council's Climate Change Manager. Significant officer time and resource across all departments will be required to support the work of the Climate Change Manager as the Council endeavours to transition to net zero.
- 10.2 The Council's Housing Revenue Account faces a significant budget requirement to address Decarbonisation of the stock. While detailed figures are still being worked on, indications are that £9 million - £15 million will be required up to 2030 to meet EPC-C targets and potentially a further £115 million by 2050 for other requirements.
- 10.3 Proposed actions and so funding will be required over the life of the MTFP, with financial implications being picked up in future reporting.

11. Portfolio Holder Comments

- 11.1 Sensible and pro-active decision making by the Administration continues to ensure that the Council has a strong Medium Term Financial position. We have established an excellent position to produce a balanced budget for 2024/25 and continue to work on

addressing the deficit to 2027/28.

For Further Information Please Contact:

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Background Papers:

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