



Financial Plan (2019 -2029)

1. About this Plan

Our Financial Plan considers the General Fund ¹ position and the Capital Programme ², the third area of the Council's finances the Housing Revenue Account ³ is reviewed and monitored within its own 30 year Business Plan.

The purpose of this Plan is to define how the Council will structure and manage its finances over the next ten years in order to deliver services to customers and support the objectives detailed within the Council Plan.

The Financial Plan links with other key plans and documents of the Council including the Transformation Strategy, Service Plans, its Asset Management Plan, Treasury Management Strategy and input from the Budget Working Party (Member Group) and the Council's Senior Management Team.

The Financial Plan requires the preparation of an annual Medium Term Financial Plan Model (MTFP) and is an essential part of the budget setting process. The MTFP provides a financial model and forecast of the cost of providing services over a rolling ten-year period, together with an estimate of the financial resources that are likely to be available to the Council. The process is designed to provide an early warning of any potential deficit in the required level of resources.

As well as considering the General Fund, the MTFP also reviews the affordability of the Council's capital investment programme, matching its forecast potential available funding against planned capital spending over a five year horizon.

The development of a ten-year financial model is based upon a number of assumptions and perceived risks which clearly become more difficult to predict as the period covered lengthens. However, as a broad principle the model has been developed on the basis of 'reasonable and prudent' forecasts and assumptions in accordance with sound accounting practice.

2. Fundamental principles

Underpinning this plan, the following fundamental principles have been adopted by the Council:

- Annually, a balanced revenue budget will be set with expenditure to be limited by the amount of available resources.
- The General Fund balance will be maintained at the adopted level.
- That the strategic imperatives as considered in the Council's Transformation Strategy will be implicit in resource allocation, in addition if required to balance the budget resources will be redirected from low to high priority services to meet objectives set out in the Council Plan.

1. The General Fund records day to day spending on the delivery of Council services 2. Capital Programme spending relates to the purchase or enhancement of assets, expenditure that has a benefit greater than a year. 3. Housing Revenue Account records spending on Council Housing and its landlord function.

- Council Tax increases will be kept within annually announced government guidelines to ensure a local referendum is not triggered.

In considering the capital budget, the Council will continue to follow the methodology of scheme scoring and prioritisation. The Council will also seek to maximise the use of its assets.

3. Financial background

One of the most significant impacts on the Council's finances came from the Comprehensive Spending Review in 2010 and following Spending Reviews where the Government has cut local authorities funding as part of its programme in tackling national debt.

The Council continues to receive significant cuts in government funding, with funding levels more than halved since 2010/11. Further cuts will be made in 2019/20 to reduce the Revenue Support Grant received by £0.127m to no grant being received in 2019/20. This is from a position where the Council received over £7m in 2010/11.

In addition to government spending cuts, there is the added pressure of inflationary increases, continued low investment income, an increasing call on services, members' ambitions to enhance and improve services and the wish to keep to moderate increases in Council Tax and other fees and charges.

Against this financial background the Council has delivered its spending plans and Council Plan outcomes through careful financial management and planning ahead. Careful decisions have been taken where service savings have been made, initiatives taken in the areas of; asset management, shared service provision, systems thinking principles, the persuasion of customers to use more convenient and cost effective means of transacting with the Council, procurement efficiencies and income generation. These initiatives have been implemented with the overall arching principle required by the Council to protect front line services to the public.

The Council has facilitated and encouraged business and housing growth in the district to deliver its ambitions and which has also financially benefited the Council in additional government funding through New Homes Bonus and extra Business Rate income.

A balanced budget was agreed by Council for 2018/19 despite a projected gap of £0.735m for the year alone, this was achieved by following the Council's Transformation Strategy which contained actions that reduced our spending levels or increased the income available to us enabling us to balance our books.

4. Medium Term Financial Plan

The base for the MTFP is the 2018/19 approved budget and the current cost of ongoing services, adjusted to take account of a range of unavoidable costs such as pay increases, inflationary pressures, the implementation of any approved changes to the budget and any costs arising from new legislation and associated regulations or

changes in customer demand. The MTFP takes account of any forecast variations in the level of both investment and fee income.

The Plan also considers and makes reasonable assumptions about the likely incomes from council tax and central government funding.

The MTFP is designed to model scenarios and to aggregate the sum of all potential financial inputs, to determine whether the Council will have sufficient resources to achieve its objectives, or indeed whether action is required to bridge a funding gap. In formulating these calculations a number of assumptions have been made and a range of external influences considered. The various risks and pressures are detailed at the end of the Plan with commentary on their potential impact including the risks associated with Brexit.

Appendix A to the Financial Plan contains the summary page of the MTFP including an analysis of costs and inflation applied.

A similar exercise has been undertaken in respect of future capital expenditure, detailing the anticipated level of resources required, together with potential funding sources available to the Council to support its planned programme of works and where there are revenue implications these have been acknowledged within the Plan.

MTFP – Revenue Position

The position on General Fund services is detailed in the table below and shows the current year 2018/19 for comparison and forms the basis from which future assessments have been made.

Some key areas to note in this calculation:

- This position is calculated based on current service provision adjusted where there are known customer demand changes, contract agreements or legislative requirements. This position does not include any growth in service or staffing to the Council's current service level.

The Council's Budget book for 2018/19

(<http://eastdevon.gov.uk/media/2413383/revenue-and-capital-estimates-201819-final-for-circulation.pdf>) is a useful reference as it details

significant information about the service provision currently provided; costs and income received, staffing resources involved in each area, the assets utilised and numbers of service users.

- The Government funding settlement is still based on the four year settlement agreement up to 2019/20, with the Council receiving no grant in 2019/20, this position is assumed to be maintained throughout the remainder of the Plan. In the previous Plan had a negative Revenue Support Grant Settlement figure being shown, however in latest Government consultation it does not appear the Government will make this charge against individual authorities so this has now been removed.

- Business Rate income has been assumed under the existing arrangements; the 50% rate retention scheme. The Government has announced that this will be a 75% retention scheme from 2020/21 onwards. The implication is likely to be the same level of funding but with greater incentive to retain additional growth above the Governments funding baseline. This has not been factored in and would it is believed would not significant impact the Plan until later years, this will considered in further updates of the Plan.

The Council has applied as part of the Devon Business Rates Pool to be a 75% pilot scheme for 2019/20 but the outcome of this bid will not be known until later in the year.

- The four year settlement issued by Government in determining councils' grant funding has assumed that councils will increase their Council Tax year on year to the maximum allowed as detailed in the 2017/18 settlement and this level of income has been taken into account in their calculations. The MTFP follows this line with £5 a year increase up to 2019/20 with an inflation increase applied thereafter.
- New Homes Bonus (NHB) income retained in the General Fund to support revenue costs has been maintained at a level of £1.5m a year going forward in the MTFP. It has been indicated that the scheme will continue in its current form for 2019/20 giving us an estimated income of £3.7m in total with the balance of this grant being used to fund capital projects. The Government has however stated it will reviewing the scheme for changes from 2020/21 to ensure the scheme is incentivising housing growth in the most effective way. This will be subject to further consultation.

The MTFP shows a projected deficit for 2019/20 of £0.665m which then increases annually reaching £4.647m in 2028/29 as a cumulative deficit to find. Clearly this is an unsustainable pattern and not one that the Council will allow, this updated MTFP is in line with previous assessments and reports to Council. A summary position of the MTFP is given below.

Summary of MTFP-Revenue	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000
Net Service Costs	14,973	14,973	15,273	16,137	16,720	17,287	17,877	18,362	18,925	19,501	20,158
Amendments to base budget	-	(467)	173	(4)	(4)	48	(69)	(4)	(4)	63	(71)
Pay & Inflation and other inescapables	-	767	691	587	571	542	554	567	580	594	608
Net Budget Requirement	14,973	15,273	16,137	16,720	17,287	17,877	18,362	18,925	19,501	20,158	20,695
Revenue Support Grant	(127)	0	0	0	0	0	0	0	0	0	0
NNDR Gov't baseline	(2,571)	(2,622)	(2,675)	(2,728)	(2,782)	(2,839)	(2,895)	(2,953)	(3,012)	(3,073)	(3,134)
NNDR income above baseline	(1,100)	(1,300)	(200)	(300)	(400)	(500)	(600)	(200)	(300)	(400)	(500)
Rural Grant	(226)	(181)	(181)	(181)	(181)	(181)	(181)	(181)	(181)	(181)	(181)
Council Tax	(8,025)	(8,389)	(8,629)	(8,874)	(9,129)	(9,387)	(9,653)	(9,926)	(10,206)	(10,327)	(10,493)
Council Tax Support Grant	33	0	0	0	0	0	0	0	0	0	0
External Interest	(625)	(650)	(650)	(675)	(675)	(675)	(675)	(675)	(675)	(675)	(675)
Interest/Loan Repayments	223	335	435	435	435	435	435	435	435	435	435
Collection Fund Surplus	(137)	(123)	(50)	0	0	0	0	0	0	0	0
Savings Target - Procurement	(70)	(70)	(70)	0	0	0	0	0	0	0	0
Reserves for one off expenditure	(704)	(48)	0	0	0	0	0	0	0	0	0
New Homes Bonus to support general funding	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Agreed use of General Fund	(144)	(60)	0	0	0	(63)	0	0	0	(67)	0
Total Resources Available	(14,973)	(14,608)	(13,520)	(13,824)	(14,232)	(14,710)	(15,069)	(15,000)	(15,439)	(15,788)	(16,048)
Cumulative Budget (Surplus) /Shortfall	-	665	2,617	2,896	3,055	3,167	3,293	3,925	4,062	4,370	4,647

The table above shows the cumulative shortfall assuming no action is taken to address each year's shortfall. The table below shows the shortfall each year in isolation, assuming the previous year's shortfall was found.

Table: MTFP Model – Summary of General Fund Position shortfall each year

General Fund	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000
Budget Shortfall	665	1,952	279	159	112	125	632	137	309	276

The model identifies the pressures and influences on the Council's revenue budgets and highlights a shortfall between the Council's spending requirements and the amount of finance available. Actions will need to be taken to meet these shortfalls and the need to keep finding savings year on year is not to be underestimated.

A clear message from the Plan is there is a need to address the funding gap and there are no resources available for growth unless capacity is found through a combination of; reprioritising spending, the achievement of savings or increased income.

During the development of this Plan bids for additional service expenditure were raised but these have been excluded and only unavoidable costs have been included. Debate on these additional items will be held during the annual budget process and prioritisation of spend considered against existing service spend. Items identified to date are considered in the risk assessment of this Plan.

MTFP Revenue - The Way Forward

Presented to Members' along side this Financial Plan is the Council's Transformation Strategy which outlines how transforming the way we work will deliver our purpose despite the budget gap identified in the MTFP and plays an integral part in meeting our deficit.

The Transformation Strategy is a dynamic strategy which requires review and update at least on an annual basis so that we can track progress and savings made. The first year of the Transformation Strategy was 2016/17 and since its introduction it has helped deliver a balanced budget annually against a projected budget gaps.

The following 'strategic themes' make up our Transformation Strategy.

- 1) WorkSmart**
- 2) Digital by design for a Digital East Devon**
- 3) Systems thinking reviews with a digital mind-set**
- 4) An organisational 'fit for purpose'**
- 5) Commercial thinking to maximise income generation**
- 6) Actively pursue partnership working and alternative delivery models where it makes sense to do so**
- 7) Adopt place based approaches to grow local economies.**

The 'strategic themes' of this Transformation Strategy will be used to ensure that spending and savings proposals can be tested on an ongoing basis against pre-agreed criteria. Keeping the 'strategic imperatives' in mind will help everyone in the Council keep a firm focus on how it directs its human and financial resources so that we steer a steady course to deliver, despite the reductions in government funding.

Key actions are identified within the Strategy, some of which need further exploration to determine the financial implications whilst other more immediate actions have been defined with a financial target/estimate of the savings/income generation that they will achieve. The savings identified so far within the Strategy are given below and compared against the budget shortfall identified. These actions are summarised in Appendix B to this Plan and the full Strategy is linked to the covering report on the agenda introducing this Plan.

General Fund	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000
MFTP Annual Budget Shortfall	665	1,952	279	159	112	125	632	137	309	276
Transformation Strategy where finance identified- assuming all saving delivered	(385)	(1,394)	(52)	(372)	(195)	(156)	-	-	-	-
Outstanding annual Shortfall/(Surplus)	280	558	227	(213)	(83)	(31)	632	137	309	276

At the point of preparing this Financial Plan it is prior to the detailed budget process for 2019/20 and leaves £0.280m to find assuming all the targeted savings identified are delivered.

The proposed saving have been considered by the Council's Budget Working Party (17th October 2018) who have agreed with them in principle but with a strong message that more savings are needed to populate the transformation actions, but at this stage it was seen as a positive "Work in Progress" which will be progressed further in the coming months.

The Transformation Strategy is dynamic and will require further work and refinement to continue to help deliver balanced budgets; the position on delivery will also require close monitoring. **The Council does however have in place a proven mechanism to deliver continuous balanced budgets.**

There are clearly risks that savings will not materialise as planned or that future actions do not identify the full savings required, other actions outside this Strategy will need to be considered if this becomes the case which unfortunately is likely to be less sophisticated and blunt such as straight forward cuts in budgets possibly affecting front line services.

The financial outlook reaches a "**Tipping Point**" in **2020/21** as highlighted in previous plans and the Council needs to focus on ensuring actions are deliverable to meet this budget gap. The Council has set aside a monies in a Transformation Fund to assist the Council's transformation programme by meeting upfront costs necessarily incurred in order to produce savings/efficiencies in future years. The balance of this Fund as at 31/3/18 was £1.898m, with existing commitments of £201k, leaving an uncommitted balance of £1.697m.

5. Capital

The Council maintains a programme of capital expenditure designed to improve a wide range of community facilities and local infrastructure. The forward funding projections below only include rolling items and projects identified early by managers; **there will be proposals missing from this list** that will need to be considered for funding out of available resources.

There will be a disparity between the Council's capital spending aspirations being greater than the amount of finance available. In producing these figures agreed principles have/will be applied:

- Capital works associated with the Housing Revenue Account are self funded; these costs have been included in the HRA business model. Any capital receipts generated from the HRA are used to finance HRA expenditure.
- A capital bid process is in place whereby appraisal forms are completed for each scheme and a scoring methodology applied to prioritise expenditure within resources available. This prioritisation is overseen by the Member Capital Strategy & Allocation Group.

MTFP Model – Capital Expenditure and Funding Position

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Net Capital Expenditure	21,229	6,221	5,346	5,265	5,265
HRA Financing	(4,906)	(5,091)	(5,091)	(5,091)	(5,091)
GF Capital Receipts	(1,100)	(7,230)	(100)	(100)	(100)
External Interest	-	-	-	-	-
New Homes Bonus – allocated	(2,593)	(2,084)	(1,404)	(1,042)	(1,001)
Sec 106 & Grants	(20)	-	-	-	-
Project Reserves	(190)	-	-	-	-
Capital Reserve	-	-	-	-	-
Net Internal/ External Borrowing	(12,420)	8,184	1,249	968	927
Capital Reserve	-	-	-	-	-

The change in picture is as a result in 2019/20 of estimated capital receipts generated from major projects. It should be noted the Council no longer holds a general capital reserve to help fund projects.

Programme expenditure includes only those schemes already approved by Council and rolling items such as; the provision of statutory disabled facility grants, the public toilet renovation programme, equipment replacement for street scene services and housing improvement schemes (fully funded by HRA contribution). **Bids will come through the annual budget process giving a different picture to that given above and there will be choices to make in order to keep expenditure within resources available.** The position on internal/external borrowing over the period requires net funding of £1.092m, however as stated this is an optimistic picture with the MTFP revenue costs assuming increased borrowing of £3.75m over the period.

Key issues to consider for this Plan in terms of capital are:

- Only rolling items, or early request for items, have been included in the MTFP with headroom for essential year on year requests. No amount is included for future coast protection or flood prevention schemes. If any schemes do come forward, it is assumed they will attract Government funding if of high enough priority.

- Any scheme inclusion in the Programme over and above this core annual expenditure needs to be considered carefully for inclusion in future programmes on a case by case basis to determine if they meet corporate objectives and, if they can be self funded, evidenced in a business case or delivered in conjunction with other agencies/partners. Some schemes will come with no funding but may still be required to be funded due to their nature.
- New Homes Bonus monies allocated to the Capital Programme represents the Balance available after deducting £1.5m to fund the General Fund.

The Way Forward – Capital programme

- There is a clear necessity for the continuation of the member **Capital Strategy & Allocation Group** to consider the allocating of capital resources against competing capital scheme bids.
- The programme needs to be populated with realistic expenditure estimates into the future; further work is required with budget managers across the Council to start formulating a more forward looking capital programme for the Council. It is envisaged this be assisted by the introduced Project Management Guidelines with the need to complete more detailed capital appraisal forms and Initial Project Proposal Document (IPPD).

EXTERNAL INFLUENCES AND KEY ASSUMPTIONS WITHIN THE REVENUE MTFP MODEL

- **Inflation**

Inflation rates used are identified in Appendix A of the MTFP attached. Although the financial model is based upon what are believed to be a series of prudent assumptions, there is inevitably a risk that some or all factors applied could be inaccurate. The table below summarises the impact of any such inaccuracies that would have a detrimental effect upon the financial plan:

Financial impact of changes in inflation assumptions 2019/20.

Factor	MTFP Predicted Inflation Costs £000	Worse by 0.5% £'000	Worse by 1.0% £'000
Pay, N.I & Pension & other employee costs + other costs	822	145	290

- **Investment Returns**

The approach adopted, of budgeting for investment income remains prudent. Investment return predictions have been factored in to continue at less than 1% with a modest increase in 2019/20 and a further small rise in 2020/21.

- **Council Tax Income**

The four year settlement issued by Government in determining councils' grant funding has assumed that Councils will increase their Council Tax year on year to the maximum allowed as detailed in the 2017/18 settlement and this level of income has been taken into account in their calculations. **The MTFP follows this line with £5 a year increase in 2019/20 with an inflation increase applied thereafter.**

Financial impact of changes in council tax levels (2019/20).

Level of council Tax increase	Predicted council tax income £000	Loss of income in MTFP 2019/20 £'000
Council tax yield at £5 (3.66%) increase	(8,389)	Nil
Yield at 2.0%	(8,255)	134
Yield at 1.0%	(8,174)	215
Yield at 0.0%	(8,093)	296

This calculation shows a one year effect, this reduction would be lost each year going forward plus the opportunity to increase the level in future on a higher base.

- **Cranbrook & other development**

The expected build rate for Cranbrook has been considered along with service cost implications. The majority of costs for the new town are to be covered in Planning 106 agreements or are not this Council's liability, other areas such as recycling and refuse collection and street cleansing have been included in the Plan when expected demand requires a stepped increase in cost. Other planned development in the area has been considered alongside these figures.

- **New Homes Bonus**

Details are covered in the main Plan, the risk in income being below the projections within the Plan falls on the Capital Programme which can accommodate such fluctuations more readily than the revenue budget.

- **Business Rate Income**

The risks associated with Business Rate income has been covered in the Plan, including the Government's intention of business rates rebasing in 2020/21. A £1.3m additional benefit has been budgeted in 2019/20 for additional rates above the Council's baseline, this is the sum that will be budgeted and if the actual amount is less than the difference will be met from the Business Rates Volatility Fund which has a current balance of £0.639m.

- **Brexit**

The risks considered for local authorities centre around:

Direct EU funding – the most obvious financial impact of Brexit for local areas is the loss of future EU funding, predominantly the European Structural and Investment Funds. EDDC currently have no bids planned.

Inward investment – It is unknown how multinational companies will view the UK's attractiveness as a base for investment post-Brexit. At best, there is likely to be a delay in the creation of the associated new jobs as plans are reviewed, and at worst those jobs may go elsewhere and existing employers may relocate. There is risk in particular around the growth point area particularly around attracting overseas companies onto the science park. The immediate effect on the MTFP would be around business rate income projections as highlighted below.

Business rate income – with the local retention of business rates, councils' own financial sustainability will increasingly depend on their ability to retain and grow rate-paying businesses. In addition to the inward investment risk already mentioned, councils are more financially vulnerable than before to the ebb and flow of the macroeconomic tide. A pragmatic and prudent approach has been taken in projecting rate income based on previous experience and the knowledge of site availability in the District. A sudden decline in rates growth will have an effect on the MTFP, however the 2020/21 expected income is low due to business rate rebasing. This area will be monitored carefully for future refreshes of the Plan.

Demand pressures – the unpredictable impact of Brexit on demand for council services may complicate the management of spending reductions in the coming years. The longer term impact on demand will depend on how well each local economy fares, but there have already been reports of worrying increases in hate crime, requiring a response from local

authorities and their partners. To date this has not impacted this Council and no allowance has been made in the Plan for these factors.

Investments and borrowing – The Treasury Management Strategy ensures we monitor the credit ratings of the limited number of deposit takers meeting our stringent investment criteria. In addition, the downgrades to the UK’s rating haven’t yet led to higher borrowing costs, but this is a risk that will be monitored.

Impact on pension fund deficits – pension fund deficits are already a volatile material liabilities on local authority balance sheets. In the short term the impact of very low bond yields is likely to drive up the deficits but to date there has been resilient asset valuations.

Supply of Labour – certain sectors have seen worrying trends in the reduction of labour from abroad however this is not seen as factor effecting this Council. The risk could be around the building industry should the Council enter into future large construction projects.

- **A further risk for consideration** are items that have been identified as service funding requests which have not been included in the MTFP as they are not affordable but these will need to be considered in the annual budget process. These are listed below for information.

Service risks not included in MTFP	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
Streetscene - Additional resources for recycling team; possible self funding business case to come forward.	29									
Succession planning for play inspector		25								
Refresh Beach Management Plans (every 5 yrs.)			50							
Growth Point Team - pulled funding from Exeter City Council to meet their budget pressures	80									
Landcharges moving to Land Register - £110k possible implication; need to plan for cost neutral position.										
Local Plan Review (sum not identified as yet)	?									
GESP extended for 2 years - staffing	84	84								
	193	109	50	-	-	-	-	-	-	-