Agenda Item No:	8
Report To:	Cabinet
Date of Meeting:	9 November 2017
Report Title:	The Medium Term Financial Plan 2018-23
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Portfolio Holder **Portfolio Holder for:**	Cllr. Shorter Finance & IT

Summary:

This report presents the Medium Term Financial Plan, a budget forecast including underlying assumptions, covering a five year period from 2018 to 2023 for the General Fund (the Business Plan for the Housing Revenue Account will be covered separately in a report to the December Cabinet.

The Plan highlights a budget gap from 2020/21 and measures to close this gap, including the Inflation Management Strategy.

Key Decision: YES

Significantly Affected Wards: All

Recommendations: **The Cabinet is recommended to:-**

I. **Note the forecast and accept the underlying assumptions**
II. **Endorse the Inflation Management Strategy**
III. **Note that this is the third year of the four year settlement**
IV. **Note the one year change to the New Homes Bonus policy**
V. **Delegate authority to the Director of Finance and Economy in consultation with the Leader and Portfolio Holder for Finance and IT to agree the Council's continued participation in the Kent Business Rates pool**

Policy Overview: In line with the Council's commitment to agree an annual budget and financially plan for the next 5 years

Financial Implications: The Medium Term Financial Plan is built based on the Corporate Plan 2015-2020, this ensures that financial resources are used to deliver the Council's priorities.

Equalities Impact Assessment	As part of the Budget Setting process
Other Material Implications:	None
Exempt from Publication:	**NO**
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Report Title: The Medium Term Financial Plan 2018-23

Purpose of the Report

1. The Corporate five year plan was approved by Cabinet in October 2015 which outlines the following priorities:
    a. Enterprising Ashford
    b. Living Ashford
    c. Active and Creative Ashford
    d. Attractive Ashford
2. Underpinning these priorities are the Ashford principles that strive for the council to be well resourced, with effective governance, delivering high quality services with good communication in a safe environment – all of which should demonstrate good compliance and standards.
3. To ensure the service continued to be delivered the Council has been developing an alternative to formula grant that will be possibly negative (the Council having to pay a tariff) from 2019/20. These alternatives include generating income through investment in residential and commercial property.
4. An integral part of that Plan is the resource planning to ensure that resources are available and targeted to priorities. This report presents the Council's Medium Term Financial Plan (MTFP).
5. Members are reminded that this report covers the General Fund budget; the Council also has a Housing Revenue Account (HRA) and this has its own separate 30 year business plan and this will be covered in detail in a report to the December Cabinet.

Background & Context

The Economy

6. The economic outlook is complicated by the BREXIT negotiations and there is a weakening outlook due to the uncertainty. The pound remains weak, with inflation expected to rise and indications from the Monetary Policy Committee (MPC) that they may consider raising base rate earlier than first thought. This action may strengthen the pound going forward and weaken inflation. However the MPC has previously mentioned base rate rises which haven't happened, and history suggests that base rate increases have failed to bring inflation back in line.
7. With a weakening economy we may see the UK enter a period of recession however this shouldn't be felt as hard as the 2007 global crash as it should be isolated to the UK.

Government Agenda

8. The Government have been quiet regarding policy over the last few months due to their focus on BREXIT and at this time it is unclear how they are likely to proceed on a number of initiatives that are progress.
9. Last financial year saw the announcement of 100% Business rate retention however it is still unclear how this will work for Local Councils, and due to this

the MTFP has assumed income based on LG Futures predictions released earlier this year. However as previously reported to Cabinet the Council is looking to be part of a pilot bid for 100% rates retention and Members will be updated more fully as government make announcements on the pilot bids.

10. There has been limited information regarding the Fair Funding Review which is still being developed by Government, however it is unclear when it will be implemented. The Council will be responding to the consultation when this is announced.

11. One issue that is growing importance is negative RSG, this is where the funding mechanism calculates that an Authority has too much resource and places a negative figure for formula grant. This is effectively the redistribution of Council Tax resources around the country with the poorer areas receiving funding which will be financed by other authorities. There are serious issues of the fairness of this, as Local Councils make decisions on Council Tax Levels based on local needs and this can now be moved elsewhere. Ashford will move into negative RSG in 2019/20 paying government around £200,000. The Council will continue to raise its objection to this approach at every opportunity.

The Four Year Settlement and Efficiency Statement 2015

12. The previous Chancellor presented the four year settlement at the end of 2015 and Councils could choose whether to accept the settlement and produced an efficiency plan as part of the agreement.

13. The settlement is detailed in the table below and shows that the Council's Revenue Support Grant will be removed over the four year period, there is also a 'Negative RSG' being applied to the council's tariff to further reduce funding in the final year, as well as information regarding redistribution of council tax across the UK, so in 2019/20 council tax could effectively be taxed. This has not been reflected in the MTFP however the Council will notify members once details are made clearer.

14. Government have suggested that authorities who accept the four year settlement will not have their tariffs amended with 'Negative RSG' however the MTFP does assume a tariff will be paid.

Table 1: 4 year settlement

	2016-17 £m	**2017-18 £m**	**2018-19 £m**	**2019-20 £m**
Settlement Funding Assessment	3.90	3.30	2.98	2.85
of which:				
Revenue Support Grant	1.27	0.62	0.21	
Baseline Funding Level	2.63	2.69	2.76	2.85
Tariff/Top-Up	-15.62	-15.93	-16.40	-16.93
Tariff/Top-Up adjustment				-0.24

15. It must be remembered that this only covers formula grant (which is due to reduce to £0) and there are major changes to government funding for local authorities including New Homes Bonus, business rates reform, etc that could reduce the Council's funding in future years.

16. This settlement only remains for two years and the Council still awaits information regarding Business Rate 100% retention and how it will affect

funding in future years. Ashford along with other Kent authorities are currently investigating the opportunity to become a pilot pool within the new scheme, this could produce a one year ‘win’ for the participating authorities due to a delay in the tariff resets.

Key Assumptions

17. *Revenue Support Grant* (the ‘staple’ of local authority funding) has been decreasing since the Comprehensive Spending Review in 2010 and the four year settlement sees the level dropping to zero by 2019 with a tariff of £240,000 from 2019/20.

18. Assumptions have been made that key grants supporting the administration of the revenues and benefits team are reduced by 44% over the next 2 years as a result of the introduction of Universal Credit.

19. *Inflation* is a factor that needs to be managed carefully within any financial planning regime. The council benefitted from the low levels of inflation over the last few years, however, over the current year inflation has started to rise and the MTFP reflects a higher inflation level for the next two years which falls back to the 2% target by 2020/21.

20. *Interest rates* have been forecast in line with the Arlingclose (Treasury Management Advisors) forecasts. As a net investor the General Fund is more affected by its ability to generate returns on its cash balances rather than borrowing cheaply. Savings have been made in recent years by not borrowing to fund projects and using cash balances, however as interest rates rise the council will want to lock into low long term rates.

21. *Pay* – Within the model pay assumptions are linked to inflation with allowances made for incremental progression.

22. *New properties* – Assumptions for new properties have been based on information from the planning and visiting officer teams, looking at the number of properties under construction and taking a view on the delivery of sites with planning permission and allocated sites. It should be noted that these figures may differ from those in the emerging local plan but for prudence a lower figure is taken. These assumptions drive figures for growth in tax base, and new homes bonus receipts. This forecast is summarised in the table below.

Table 2 : Local Plan Housing Delivery Projections (note: New Homes Bonus is measured Oct- Oct)

	2018-19	2019-20	2020-21	2021-22	2022-23
Sites Under Construction	300	300	211	120	100
Extant Permission - not started	439	405	434	587	693
Sites allocated in Local Plans	263	718	879	915	805
Total	**1,002**	**1,423**	**1,524**	**1,622**	**1,598**

23. *Business Rates* – Increases in business rates are set by the RPI level in the preceding September. However government has capped increases in business rates at 2% where RPI was higher than this figure and the model assumes that this will continue for the life of the plan.

24. *Council Tax* – Government has so far capped the level that council tax can be increased by without a local referendum at 2% or £5 whichever is the greater. A 2% increase would result in a £3 increase in Council Tax for a band D property. For planning purposes the MTFP has assumed a £3.50 (2.28%) increase for 2018/19, a £3 (1.9%) increase in 2019/20 and 2% for the remainder of the plan. The decision on the level of Council Tax is taken each year by Council in February.

25. A table of assumptions is included in **Appendix A**

<u>Reserves</u>

26. The Council's general fund reserves - as at 31 March 2017 - are shown in **Table 3** below, with a forecast for movements within the current financial year. This shows that the Council's reserves are robust and adequate. The Council has a policy of maintaining the general fund balance of at least 15% of net budget requirement which is currently around £2.32m. Reserves have been earmarked to fund a number of Corporate Projects; the corporate project plans are monitored and updated regularly.

27. During 2016/17 a single pot approach was adopted to fund corporate plan projects. This effectively allows reserves that are not earmarked for a specific purpose to be made available for projects. This strategy enables the Council to allocate funding to future income generating projects, as well as projects that will regenerate and support the Borough.

28. The current project plan is fully funded with a number of other projects being developed, funding will be approved based on projects meeting criteria set out in the plan.

Table 3: Summary of Earmarked Reserves

	Balance as at 31 March 2017	2017/18 Transfers	Estimated Balance as at 31 March 2018	2018/19 Transfers	Estimated Balance as at 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Earmarked reserves					
Corporate Plan	4,988	84	5,072	(1,225)	3,847
Fund Future expenditure	3,037	(560)	2,477	(153)	2,324
Maintenance of assets	1,569	(195)	1,374	(195)	1,179
Reserves requires (statute)	278	(119)	159	0	159
Developer Contributions	6,919	(980)	5,939	(880)	5,059
Total Earmarked	**16,791**	**(1,770)**	**15,021**	**(2,453)**	**12,568**
General Fund Balance	2,602	109	2,711	94	2,805
Total General Reserves	**19,393**	**(1,661)**	**17,732**	**(2,359)**	**15,373**

29. The reserves are based on known information, with the potential to grow reserves though future Community Infrastructure Levy and future corporate projects not yet defined. There is an assumption that Planning reserves will be fully allocated to appeals and Section 106 reserves will decrease due to completion of projects such as Repton Park community centre.

Inflation Management Strategy

30. For a number of years (2013-2016) the Council made the decision to manage the inflationary impact from absorbing the pressure through savings elsewhere within services. With continued pressure from inflation it is important to review regularly and understand how inflationary pressures will be managed for the life of the MTFP.

31. The MTFP includes projects to generate more income streams, maximise treasury management returns, whilst safeguarding capital and considering council tax setting polices, Ashford continues to be the lowest council tax in Kent.

32. The Inflation Management Strategy is attached in **Appendix B,** and Cabinet is asked to support the principles of the strategy.

New Homes Bonus

33. The Council receives a New Homes Bonus (NHB) payment for four years for every property built or brought back into use in the borough. This non ring-fenced grant can be used for both revenue and capital purposes at the Council's discretion.

34. The amount the Council receives is also top sliced to divert funding to Adult Social Care and this has been modelled in the MTFP.

35. Assumptions on future levels of NHB are based upon the forecast numbers of new properties, however there is an element of delay built in based on historical information and information received from the investigation team, that monitor properties completion for Council Tax charging.

36. Currently £1.6m of NHB is being used to fund the Base Budget and in addition to this a number of revenue corporate projects are also funded. The remaining amount of the NHB is set aside to fund other Corporate Projects and is allocated to reserves within the MTFP.

37. NHB is an important element of the Council's funding and due to this being a transitional year, contributions reducing from 5 years to 4 years, it is proposed that the amount supporting the base budget is increase to account for this transition. This would increase the contribution by £100,000 for 2018/19 and reverting back to 50% base budget funding and 50% Corporate Projects from 2019/20.

<u>Business Rates Growth</u>

38. Business rates is a major part of local government funding, retaining 40% of business rates collected, although this is subject to a tariff of £15.7m leaving baseline funding of £2.7m. The current scheme also allows a retention of 50% of any growth over the set baseline position. The current general fund budget is £3.7m this suggests that the Council has already achieved £1m of growth.

39. There is current a deficit on the Collection Fund due to the spreading of appeals however 2017/18 should be the final year which will clear the ongoing deficit.

40. In forecasting business rates there are essentially four issues:

    a. Was our opening forecast for business rates yield for 2017/18 reasonably accurate?
    b. Is the appeals provision prudent?
    c. What is the performance of the pool?
    d. How should we look at future business rate growth as funding for the budget?

a. The 2017/18 Yield Forecast

41. The rateable value of business properties is revalued every five years, the most recent revaluation came into effect at 1 April 2017.

42. The second quarter's data has been analysed and it's expected that the annual yield projection will be lower than the anticipated yield. The budget has allowed for a significant increase in the appeals provision due to this being the first year of the revaluation, however this can be reviewed and will narrow the gap.

43. In the event of a sudden and large drop in business rate yield a 'risk provision reserve' was set up on commencement of the new business rate system.

b. The Business Rate Appeals Provision

44. For 2017/18 a new appeals system was introduced ‘Check. Challenge. Appeal’. It is hoped that a large majority of cases will be resolved at the ‘check’ stage, and that the process will result in a faster turnaround time for appeals, and create more certainty for Local Authorities in regards to likely outcomes.

45. To support the Council in calculating the appeals provision the council uses the services of ‘Analyse Local’ – a company whose software is able to analyse the appeals list and estimate the likely losses. In addition the Council analyses trends within its own data to assess the likelihood of a successful appeal. In previous years around 28% of appeals were successful and result in some movement in RV, on average this is an 11% reduction in RV.

46. There is no data available in respect of appeals on the 2017 valuation list, with all outstanding appeals are based on the 2010 list. The deadline for businesses to appeal the 2010 list was 31 March 2017, so there should be no further applications in regards to this list. There are currently 173 outstanding appeals, in respect of the 2010 list, with a rateable value of £51m, these are expected to be cleared over the next 2/3 years. In 2017/18, to date, we have paid £700,000 in respect of appeals out of the provision.

47. The Council had an appeals provision of £3.4m at the start of the year, this position is monitored throughout the year and reported to Cabinet.

c. Performance of the Pool

48. From 1 April 2015 the Council joined the Kent Business Rates Pool, which contains most of the Kent Authorities and provides a mechanism to reduce the levy payable by local authorities on growth and to promote economic development. The pool will continue until there is an application to change the membership.

49. Membership of the pool has resulted in a reduction in the levy payable on growth, from 50% to 1.6%. In 2016/17 the Council's share of this saving was £266k, with a further £133,000 allocated to Economic Development whose use will be determined jointly between Kent County Council and Ashford Borough Council. As the expenditure would not be in the budget framework, any scheme would need to be approved by Cabinet and Council.

50. For 2017/18 there were some changes in pool membership, with one member withdrawing from the Pool. There is another member of the Pool that has been in Safety Net due to the closure of a major employer in their Borough, the pool has set aside funds to manage this and is still expected to deliver the benefits of membership.

51. For 2018/19 Government have announced that it is seeking bids from areas to pilot 100% Business Rates Retention. Delegated Authority has been given to the Chief Executive and Director of Finance and Economy, in conjunction with the Leader and Portfolio Holder, to agree a bid proposal for Kent to join this pilot scheme (Cabinet October 2017). Should a Kent pilot go ahead for 2018/19 it is expected that each member authority would be at least £500,000 better off than the baseline and that the business rate income currently paid to

government would be retained in the county to enhance public services. The pilot is only guaranteed for 1 year.

d. Should Kent not be part of the pilot scheme the Kent Pool will continue to operate. The usual DCLG deadline for pool applications is the end of October. It is therefore recommended that authority be delegated to the Director of Finance & Economy in conjunction with the Leader and Portfolio Holder for Finance & IT to agree any amendments to the membership of the pool.

e. Future Year's Business Rate Growth

52. There are several prospective large commercial developments in the pipeline, with added focus from the Council, we may be able to secure these developments over the next five years, and this should be a primary focus, as the additional rates yield is an important aspect of the MTFP.

<u>Developing Future Income Streams</u>

53. During this year, two new strategies have been developed to replace the Borrowing and Acquisition Strategy approved in 2014/15. This strategy has been successful in promoting inward investment, business growth and employment, with developments such as International House, Park Mall and the Elwick Place development; however, to avoid a concentration risk, other Commercial investment opportunities are being investigated. The Council's property Company is working with developers to bring forward further investment opportunities in accordance with its business plan.

54. These new strategies are part of the Commercial Investment Strategy, which is comprised of three elements, Real Estate Investment, Loans to the Property Company and Strategic Investment. A full report will be presented to Cabinet in the future introducing these policies and the future income projections.

55. The Medium Term Financial Plan includes income from projects that have been confirmed, such as investment in the Property Company, £50m included within the plan (£10m per annum) and the Elwick Place development is also included within the plan. Future projects that have not yet been approved or started have not been included.

MTFP Forecast

56. The forecast detailed in the table below takes into account the items discussed above. The forecast, which is not cumulative, shows that the budget gap is manageable for the life of the plan, however Members and Management Team need to manage any pressures coming through to ensure the gap does not widen. Income streams that have or are set to be achieved are mitigating the impact of inflation in the medium term as planned.

	2018/19 £'000's	*2019/20* £'000's	**2020/21** £'000's	**2021/22** £'000's	**2022/23** £'000's
Revenue Support Grant	*(264)*	*140*	*211*	*283*	*358*
S31 Grant NNDR reliefs	*(1,060)*	*(59)*	*(68)*	*(69)*	*(70)*
Retained Business Rates	*(3,317)*	*(3,985)*	*(3,702)*	*(4,144)*	*(4,746)*
New Homes Bonus (50% allocated to support base budget)	*(2,694)*	*(3,074)*	*(3,310)*	*(3,291)*	*(3,366)*
Government Funding	(7,335)	(6,978)	(6,869)	(7,221)	(7,824)
Council Tax	(7,195)	(7,522)	(7,855)	(8,210)	(8,588)
Total Income Receipts (Including Specific Grants)	(49,106)	(48,254)	(48,098)	(47,945)	(47,773)
Base Budget Gross Expenditure	64,680	64,971	65,465	66,149	66,811
Budget Increases	(1,110)	(1,979)	(2,510)	(2,723)	(2,840)
BUDGET GAP	**(66)**	**238**	**133**	**50**	**(214)**

57. It should be noted that the plan is based on what we currently do and growth in the population could put more pressure on services than is currently recognised. There is a savings target of £130,000 per annum (cumulative) to be achieved through services which equates to around 1% of net budget requirement.

Balancing the budget gap

58. Management Team have discussed this and have proposed to manage the gap by managing inflation pressures by ensuring they are working in the most efficient way possible. Maintaining restraints around budget spend and regularly reviewing budgets.

59. Digital transformation will aspire to manage growth in demand within resources through smarter working.

60. The Investment Strategy has been developed and generating future income to support the underlying budget is being continuously reviewed.

Next Steps

Note the Medium Term Financial Plan and request that Management Team deliver a balanced budget.

Appendix A

Key Assumptions

	2018/19	2019/20	2020/21	2021/22	2022/23
Pay inflation and increments	2.70%	2.70%	2.70%	2.70%	2.70%
Contract inflation	3.50%	3.25%	3.00%	3.00%	3.00%
Income inflation	3.00%	2.75%	2.50%	2.50%	2.50%
General inflation	2.50%	2.25%	2.00%	2.00%	2.00%
Utilities inflation	4.00%	3.75%	3.50%	3.50%	3.50%
Business rate growth	2.00%	2.00%	2.00%	2.00%	2.00%
Benefits Inflation	0.00%	1.00%	1.00%	1.00%	1.00%
Pension	4.00%	4.00%	4.00%	4.00%	4.00%
Base rate	0.25%	0.25%	0.25%	0.25%	0.50%
Council Tax Increase	2.28%	1.90%	2.00%	2.00%	2.00%

Developing a clear counter-inflation strategy and choices as counter-inflation measures

The role of council tax and council tax increases.

1. All the while council tax increases are low, they are effectively doing no more than combating inflation. This Council has a desire to stay the lowest Council Tax in Kent, so increases are unlikely to increase at the highest level available for the current level of service.

Managing inflation cost pressures

a) Pay

2. The largest single inflationary impact is £372k. Action to control the pay bill will contribute towards the effective management of inflationary pressures. This has been negotiated and agreed and is reflected within the MTFP.

b) Non-pay budgets

3. Exercising constraint requiring services to consume inflationary impacts, by reducing the budget uplifts, this places more onus on budget managers to manage demands through greater efficiency, stronger procurement or negotiations with contractors. It would be unwise to adopt this practice for a number of years without periodic review. In line with this policy, for 2018/19 an increase of 2.5% has been assumed for non-pay (service) budgets. This is in line with the OBR forecasts

4. Those services linked to contracts are uplifted by the index used in deciding the annual contract review price.

c) Efficiency and new sources of income

5. We should use efficiency and a new income sources programme, as clear counter-inflation measures. The Council is in the process of transforming the way in which it communicates with clients, although there will be an initial cost it is expected that efficiencies will come through in later years, even though no actual savings targets are attached to the project.

6. The Council is updating its investment strategy looking at other ways to diversify investments, helping to manage risk along with achieving higher returns.

d) The role of service fees and charges

7. The MTFP forecast assumes fees and charges will increase by 0.5% above the rate of the Consumer Prices Index (taken at the November preceding the financial year). This assumption relates only to charges where the council has the discretion to decide increases. Car park charges, however, are more sensitive and so need more judgment and therefore fee levels are considered separately. The MTFP, over its lifetime, does not make any assumptions about car park charges changing.

8. As a counter inflation measure fees and charges must keep pace with rising costs of service provision, particularly for services where fees and charges do not cover full costs.

e) The treasury management role and interest on investments

9. Day-to-day treasury management plays an important role in contributing an income source to the council. Core cash for treasury management purposes varies between £20m and £40m. Interest rates and investment yields are, among other things, a reflection of financial markets' view of the path of inflation over the longer term. For this reason treasury management returns should be viewed as part of the council's counter inflation strategy.