

Agenda Item No: 9
Report To: Cabinet
Date of Meeting: 26 November 2020
Report Title: The Medium Term Financial Plan 2021 to 2026
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Portfolio Holder Cllr. Neil Bell
Portfolio Holder for: Finance & IT



Summary: This report presents the Medium Term Financial Plan (MTPF), a budget forecast including underlying assumptions, covering a five year period from 2021 to 2026 for the General Fund.

The Housing Revenue Account (HRA) is reported separately in the HRA Business Plan, which will be report to Cabinet in December 2020.

The Draft Budget is built using the assumptions in the MTFP and the Draft Budget will be reported to Cabinet in December.

The MTFP highlights the pressure coming through from the recession as a result of the COVID19 pandemic and measures in reduce Council spending over the next 5 years.

The MTFP is based on the Council's current activities and resources. New priorities and projects will need to be fully planned and the impact on the budget understood before approval.

Key Decision: YES

Significantly Affected Wards: All

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

- I. Note the forecast and accept the underlying assumptions**
- II. Note that 2021/22 funding is based on current funding with spending reviews, fair funding and Business Rate changes now to be implemented from 2022/23**
- III. Endorse the Reserves Strategy (Paragraphs 33 to 43)**

IV. 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:	This report is in line with the Council Policy to prepare and approve an annual budget and update and review the Council's finances with a five year plan.
Financial Implications:	<p>The Medium Term Financial Plan is built using the Council's Recovery Plan, future assumptions and an agreed saving plan to be presented as part of the Draft Budget.</p> <p>The Plan does include a number of risks and these are explored further in the risk section of the report.</p>
Legal Implications:	NA
Equalities Impact Assessment:	The assessment is done as part of the Final Draft Budget Report, reported to February 2021 Cabinet. This report forms part of the Budget Setting process.
Data Protection Impact Assessment:	No personal data used to build the plan.
Risk Assessment (Risk Appetite Statement):	Risks are explored in this report in the section below. There are many risks including, Government funding and the uncertainty within the economy. The Medium Term Financial Plan is used to assess these risks and the impact they could have on the viability of the Council over the next five years.
Sustainability Implications:	NA
Other Material Implications:	None
Exempt from Publication:	NO
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Report Title: The Medium Term Financial Plan 2021-2026

Introduction

1. This report presents the Medium Term Financial Plan (MTFP/the Plan) that has been built based on current service activities, current understanding of future levels of government funding and key assumptions based on the current COVID19 pandemic and possible resulting recession. The Plan also includes saving measures of around £3m per annum that have been identified by Heads of Service and reviewed and approved by Portfolio Holders and the Leader of the Council.
2. The Council has also been asked to approve an additional borrowing facility to the Property Company of £50m and has developed a Commercial Strategy. Both of these measures should increase income to the Council with an overall target of £1m per annum in later years of the Plan.
3. This report covers the General Fund Budget, the Council also has the Housing Revenue Account (HRA) and this has its own 30 year Business Plan and is covered in a detailed Cabinet report. This report will be presented to Members at the Cabinet meeting held in December 2020.
4. The Draft Budget is built in conjunction with the MTFP and will be presented to Members at the December Cabinet.

Background & Context

The Economy

5. The impact on the UK from coronavirus, together with its exit from the European Union and future trading arrangements will remain a major influence on the economy over the life of the MTFP.
6. UK CPI (Consumer Price Inflation) for September 2020 was 0.5%, up from 0.2% in the previous month; the MTFP assumes this will rise to 1% by March 2021 before returning to the BoE (Bank of England) target of 2% by March 2023/24.
7. The most recent labour market data for the three months to August 2020 showed the unemployment rate rose to 4.5%; this is expected to increase further due to the ongoing impact of Covid19 on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021.
8. With the BoE forecasting unemployment will peak at 7.75% in Q2 2021, this could increase pressure on the Council's Revenues and Benefits Team, and Housing Services. Some of these job losses will come from business failure and in turn will put pressure on business rates income.
9. The BoE voted unanimously to maintain the Bank Rate at 0.10% in November 2020 with no mention of negative interest rates, this is as anticipated in the MTFP.

Government Agenda

10. Currently Ashford Borough Council is part of the Kent Pool for Business Rates that offers a number of benefits to the Council including benefiting from the business rate growth within the district. A review is currently underway throughout Kent to ensure in the current climate a Pool should still exist and that Ashford should be part of such Pool.
11. Government's focus has been the COVID19 pandemic this year dealing with containment of the virus whilst balancing this against the pressures within the economy. The result of this is likely to see the reforms on various Local Government funding streams being delayed including the fair funding review, business rate retention scheme and the comprehensive spending review (multi year settlement).
12. These reviews could fundamentally affect the funding position of Local Government. There is a strong policy driver to divert funding to Social Care, which has a potential to transfer resources away from District/Borough Councils to County Councils. This needs to be balanced against the impact on District/Borough Councils and the need to maintain key service priorities.
13. The New Homes Bonus Scheme is ending however, there has been no indication of a replacement scheme to incentivise local residential development. The MTFP assumes a one off allocation for 2021/22 with on legacy payments.
14. The EU Exit is also high on the agenda and work is underway to secure a deal with Europe before 31 December 2020.

Local impact of Government Policy

15. The Covid19 crisis has created a vacuum in terms of the local impact of many policy developments as they are paused whilst we wrestle with the crisis.
16. The Spending review will be restricted to a single year and we expect a settlement based on current year allocations with the methodology for distribution set to be retained for another year until the fair funding review is completed.
17. Perhaps the biggest areas where we are seeing the impact of government policy locally is within the area of the End of the Transitional Period and the development of the Border Control Facility at Sevington. In addition to this the Government has been very proactive in tackling Homelessness and recent figures show that we have a single rough sleeper in the borough.

Key Assumptions

18. The Medium Term Financial Plan is based on a number of assumptions, this section explores the more significant ones and **Appendix A** lists others such as interest rate forecasts.
19. Due to the COVID19 pandemic the MTFP includes a resulting recession. This recession is forecast to last two years with a slow recovery over the following three years. .
20. Inflation is a factor that needs to be managed carefully within any financial planning regime. CPI has reduced sharply this year, recovery is expected over the next couple of years and this is reflected in the MTFP. Arlingclose

(Treasury Management Advisors) estimates based on Government forecasts sees CPI will return to the 2% target by 2023/24.

21. Interest rates have been forecast in line with the Arlingclose estimates. As a short term borrower the Council is more open to interest rate risk. This strategy is in accordance with the Treasury Management Policy and is monitored by Officers alongside Arlingclose treasury advisors.
22. Cost of living pay increase is forecast to be zero in 2021/22 and again in 2023/24. In other years of the Plan a cost of living increase of 1% is estimated. The increment salary increases are contractual and are included in the all years of the plan at 0.7% of the total salary bill.
23. 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 the figures may differ from those in the emerging local plan but a lower figure is taken as history shows a lower level are usually completed than. These assumptions drive figures for growth in tax base which ultimately impacts upon Council Tax Yield, and new homes bonus receipts.
24. Last year Government capped the level that council tax could be increased by without a local referendum at 2% or £5 whichever is the greater. For planning purposes the MTFP has assumed the maximum increase available to the Council in each year of the Plan which would result in a £5.00 increase for 2021/22.
25. Council Tax base is estimated to be lower than current levels, this has been calculated based on a small increase in non-collection of 1.5% and an increase in Council Tax Reduction claims of 40% (16% already realised). This calculation is based on current information, furlough schemes ending in April resulting in unemployment continuing to rise throughout 2021/22.
26. Due to the delays in the reforms to local government finance we expect to see a one year settlement being agreed based on last year's settlement. Although funding levels have not been formally reported to the Council as yet the following assumption have been made:
 - a. New Homes Bonus will continue for one year however we do not expect to receive any legacy payments resulting from the allocation. Historically there have been three years of legacy payments at the same value.
 - b. The Business Rate retention scheme has been under review and a number of government consultations have happen over the last couple of years. Due to current priorities we have made the assumption the business rate scheme will continue in its current form with the reform implementation date now being in 2022/23.

Developing Future Income Streams

27. The Commercial Investment Strategy, comprises of three elements, Real Estate Investment, Loans to the Property Company and Strategic Investment.
28. The Medium Term Financial Plan includes income from projects that have been confirmed, such as investment in the Property Company, £100m (soon

to be £150m) included within the plan with significant drawdowns in 2021/22 and 2022/23. Future projects that have not yet been approved or started have not been included.

MTFP Forecast

29. The forecast detailed in the table below takes into account the items discussed above. The forecast, which is not cumulative, shows that there are pressures coming forward from 2021/22 with the budget coming back inline nearer the end of the plan as returns from the commercial strategy are realised.
30. The 2021/22 budget has a pressure of £920,000 will be managed through use of reserves that have been set aside to manage this pressure. This position will be closely managed throughout the year with Services realising savings through vacancies and only approving essential spend.
31. The additional pressure coming through in 2023/24 is the estimated impact of the retendering of the waste contract which has been informed by current market intelligence. The Head of Environment and Land Management will explore various models of delivery to understand if this pressure can be reduced.
32. It should be noted that there could be significant changes to government funding that has not been reflected in the later years of this programme but could include a reduction in Business Rate income.

Table 1 – Medium Term Financial Plan projections

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
<i>Government Grant</i>	(83)	(83)	(83)	(83)	(83)
<i>Retained Business Rates</i>	(4,084)	(3,574)	(4,088)	(4,636)	(5,934)
<i>New Homes Bonus (50% allocated to support base budget)</i>	(1,680)	(730)	0	0	0
Government Funding	(5,847)	(4,387)	(4,171)	(4,719)	(6,017)
Council Tax	(7,794)	(8,161)	(8,667)	(9,079)	(9,526)
Total Income Receipts (Including Specific Grants)	(47,542)	(46,669)	(45,885)	(45,658)	(45,419)
Base Budget Gross Expenditure	64,799	63,659	62,972	63,807	64,682
Budget Increases	(2,696)	(3,401)	(2,444)	(3,058)	(3,746)
BUDGET GAP	920	1,041	1,805	1,293	(26)

Reserves Strategy

33. The Council holds a number of reserves to ensure it has enough money to cover future risks such as maintenance of property, Business Rate changes and interest rate movements.
34. The Cabinet review these reserve levels based on a recommended strategy that considers the Council's Net Revenue Budget, risks present and the growing asset base.
35. The table shows the current reserves and the current forecast allocations:

General Fund Revenue Reserves		Balance at 31st March 2021 £'000
Unearmarked General fund reserves		3,179
Earmarked Reserves		
Corporate Recovery Delivery Plan		533
Project Reserves		0
Economic Resilience Reserve		5,000
Fund future expenditure (Risks)		5,585
Provide for maintenance of assets		2,500
Required by statute reserves		143
Developer Section 106 contributions		4,846
Earmarked Reserves		18,607
Total Reserves Position		21,786

36. The Council's reserves policy is to hold a minimum 15% of Net Budget Requirement as the unearmarked General Fund Balance; this is around £2.5m.
37. The Council has a MTFP pressure of £5m over the next five years, to ensure there is funding to offset the forecast pressure a balance of £5m will be held in the Economic Resilience Reserve should this be required.
38. The Council has a General Fund (property & land) asset base of around £120m, and at the start of this year asset management reserves held £1.3m. It is felt that this balance should be increase to around 2% of the asset balance and the reserve has been set at £2.5m. It should also be noted that the Base Budget includes transfers to the Repairs & Renewals Reserve of £500,000 per annum and this will be reviewed regularly to ensure it is appropriate.
39. Consideration will need to be given as to whether reserves need to be grown to fund future projects, this will create a further pressure in the MTFP but currently any replacement for New Homes Bonus will be used for this purpose.

- 40. The Recovery Plan reserve is expected to be fully utilised by end of 2021/22 as the projects covered by the plan are delivered.
- 41. Future projects and priorities will be assessed for funding before they are approved. The following should be considered:
 - a. Capital reserves will be utilised if available for capital projects, these reserves are expected to increase based on asset rationalisation.
 - b. Projects that generate a regular income above financing costs could attract borrowing for funding; a full business case would be required to access borrowing.
 - c. Projects outside of (a) and (b) would need to be consider alongside available reserves and staff resources. Grants and other external funding should also be considered to reduce the call on reserves. Grants should only be applied for to deliver approved projects, reducing g Council liabilities.

42. The current capital reserves are as follows:

General Fund Capital Reserves	Balance at 31st March 2021 £'000
Capital Reserves	130

43. There is an asset rationalisation review in progress and it is expected that a number of assets will be sold a part of this. It is these reserves that could be used for future projects and regeneration of the Borough.

Balancing the Budget Gap

44. There has been a great deal of press coverage over the financial viability of Local Authorities, with the London Borough of Croydon issuing a Section 114 notice which restricts the Council's expenditure to only statutory services. There have been a number of reports through to cabinet examining the financial impact of the COVID crisis on Ashford Borough Council's budget. Emergency Government funding and in year budget savings through reduced activity has enabled us to close the 2020/21 budget gap and reduce the demand on reserves.
45. Looking forward the Council faces an environment of weaker and reduced income streams and increased service demands as a result of the economic effect of the pandemic. This is coupled with the existing MTFP pressures that were highlighted resulting from service spending demands to maintain service levels and the need to re-tender some significant contracts.
46. Doing nothing is not an option, and Members and Management Team understand there is a budget gap and over the summer started to develop savings proposals of approximately £3m that will be brought forward as part of the draft budget in December.
47. These savings proposals allow us to present the MTFP in this form and means that the remaining budget gap can be managed through the sufficient reserves that have been set aside to fund this gap. If these savings are not delivered the reserves will be consumed at an unsustainable rate and a S114 would need to be written, therefore the priority needs to be delivering these savings.
48. In the opinion of the Section 151 officer this strategy means that the Council remains viable and can plan towards the medium term. However whilst the future presents opportunities, some of which are mentioned above, these will be balanced against weaker income streams and reduced level of reserves will require continued caution and prudence when planning for the future.
49. The council will need to develop further measures to manage any pressures coming through to ensure the gap does not widen. This will be achieved through:
 - a. Cost Awareness – Controlling our costs
 - b. Income generation – Exploiting opportunities
 - c. Working smarter – Empowering staff
50. Digital transformation will aspire to manage growth in demand within resources through smarter working. A new Planning system is to be implemented during 2021/22.
51. The Investment Strategy and generating future income to support the underlying budget is being continuously reviewed.

Risks

52. There are a number of risks to the MTPF and an assessment of those risks are explored in this section below.

53. The MTFP assumes that there will be a recession as we enter 2021, affecting the whole plan with recovery starting as we enter 2023. If the recession is prolonged or deeper than our forecast, this could have a negative impact on the Plan.
54. The MTFP includes savings of around £3m per annum from 2021/22. Should these savings not be achieved there will be further calls on reserves throughout the MTFP period. This brings into focus the capacity of the Council to deliver its plans. There must be a focus on delivering savings whilst continuing to deliver services as well as the recovery plan. The consequence of this focus may be a reduced capacity to do more than these stated objectives.
55. The Council is currently in the process of working with the Government in the formation of a Border Control Post and Ashford has a statutory duty to deliver this service. The Council is working closely with DEFRA with the expectation that the overall outcome will have no detrimental impact on the Ashford Tax Payer.
56. The current reserve position is sufficient however the recent Pandemic has demonstrated the need for the Council to hold reserves for emergencies and a pause in business for any reason can have a severe impact on the Authority. The Council has prepared the reserves strategy above to ensure reserves are in a stable position moving forward but at some stage the Council may decide to replenish reserves to provide for the future.
57. It should be noted that the MTFP includes approved projects in the Recovery Plan Strategy and current Service priorities, should these be updated or changed this will add pressures to the MTFP and on current staff resource of the Authority.
58. The key assumptions are built on the information available to us at this time. How these assumptions 'play out' will affect the overall MTFP position. These movements will be monitored through the Financial Monitoring process and regularly reported through to Cabinet.
59. The Stodmarsh position has been considered when looking at building within the Ashford area however if this is prolonged there could be a pause in development affecting planning income and future development grants and also will affect the tax base growth assumed within the plan.
60. Government funding review outcomes are still uncertain and could fundamentally affect the MTFP position. Government has stated that whilst the country is managing the pandemic, this is not the time to set long term fiscal policy. Whilst this view is supported, a key lobbying point is that Local Government needs certainty on funding from government so that it can plan for the challenges ahead, until that is achieved it is very difficult to plan for the medium term.

Consultation Planned or Undertaken

61. The Draft Budget will be presented to the December 2020 Cabinet meeting requesting approval to be passed for budget consultation through the Overview & Scrutiny Task Group and externally (residents and businesses).

62. This consultation period will run for the remaining part of December and throughout January.
63. The Savings proposals are currently being reviewed with a view to identifying whether any further, wider consultation process will be needed for specific proposals and this will be reported as a when required.

Next Steps in Process

64. The Draft Budget is prepared on the basis of the Medium Term Financial Plan and this is presented to members at the December Cabinet meeting on 17th December. The recommendation will ask Cabinet to send the Draft Budget to consultation to the Overview & Scrutiny Task Group and the public including residents and businesses within the Borough.
65. The Final Budget will incorporate any agreed changes following the consultation period and any significant changes understood since the Draft Budget and will be reported and presented to Cabinet in February 2021 and this will then be recommended for approval to Council on 4 March 2021.

Conclusion

66. Members are asked to consider and note this report along with assumptions made, endorse the Inflation Strategy and the Reserves Strategy and 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

Portfolio Holder's Views

67. I am pleased to see that the Financial position of this Council has been fully reviewed this year and Management Team have identified £3m of savings to ensure this Council can continue to provide priority services.
68. I note that there is an overall pressure in the Medium Term Financial Plan of £5m and I endorse the proposal to set aside £5m into the Economic Resilience Reserve to fund this pressure should it be needed and I will support officers to keep this position reviewed over the coming year.
69. This has been a challenging year and it will continue to be so with the pandemic crisis entering its second wave and the EU Exit approaching quickly but I know officers will monitor the financial position closely and report through to Cabinet regularly through the Financial Monitoring Process.

Contact and Email

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Key Assumptions

	2021/22	2022/23	2023/24	2024/25	2025/26
Inflation					
Pay	0.70%	1.70%	0.70%	1.70%	1.70%
Contract	2.00%	2.50%	3.00%	3.00%	3.00%
Income	2.00%	2.50%	3.00%	3.00%	3.00%
CPI (consumer Price Index)	1.00%	1.50%	2.00%	2.00%	2.00%
RPI (Retail Price Index)	2.00%	2.50%	3.00%	3.00%	3.00%
Utilities	2.00%	2.50%	3.00%	3.00%	3.00%
Benefits	1.00%	1.00%	1.00%	1.00%	1.00%
CT increase	2.98%	2.90%	2.80%	2.70%	2.66%
Pension	4%	4%	4%	4%	4%
Bank of England Rate	0.10%	0.10%	0.25%	0.25%	0.50%
ST Borrowing	0.20%	0.20%	0.35%	0.50%	0.50%
LT Borrowing	1.75%	1.75%	2.00%	2.00%	2.25%
ST Investment	0.05%	0.05%	0.05%	0.15%	0.25%
LT Investment	2.74%	2.80%	3.11%	3.50%	3.71%
Company lending	3.05%	3.05%	3.30%	3.30%	3.55%