Agenda Item No:	6
Report To:	Cabinet
Date of Meeting:	28 October 2021
Report Title:	The Medium Term Financial Plan 2022 to 2027
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Portfolio Holder Portfolio Holder for:	Cllr. Neil Shorter Finance & IT

ASHFORD
BOROUGH COUNCIL

Summary:

This report presents the Medium Term Financial Plan (MTFP), a budget forecast including underlying assumptions, covering a five year period from 2022 to 2027 for the General Fund.

The Housing Revenue Account (HRA) is reported separately in the HRA Business Plan, which will be report to Cabinet in November 2021.

The Draft Budget is built using the assumptions in the MTFP and the Draft Budget will be reported to Cabinet in November 2021.

The MTFP has been built from a backdrop of Covid and the EU Exit and although this Council has not suffered directly from these events, due to significant Government funding, the resulting pressure on inflation in the construction industry, increasing energy prices, and the increase in earnings are reflected in the MTFP.

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 2022/23 funding is based on current funding with spending reviews, fair funding and Business Rate changes now to be implemented

from 2023/24

III. **Endorse the Reserves Strategy (Paragraphs 35 to** Error! Reference source not found.**)**

IV. **Delegate authority to the Deputy Chief Executive 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:	The Medium Term Financial Plan has been prepared alongside the Council's Corporate Plan 2022-2024, and includes future assumptions around inflationary movements and government levels of funding. It also includes the agreed saving plan that was presented and approved as part of the Final Budget for 2021/22 at Full Council earlier this year. The Plan does include a number of risks and these are explored further in the risk section of the report.
Legal Implications:	NA
Equalities Impact Assessment:	The assessment is prepared as part of the Final Draft Budget Report, which will be reported to February 2022 Cabinet. This report forms the basis 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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Agenda Item No.6

Report Title: The Medium Term Financial Plan 2022-2027

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 sourced from government and advisors. The Plan also includes saving measures approved as part of the 2021/22 Budget. These savings amounted to £3m per annum and 2022/23 sees £762,800 reducing the projected spend with a further £79,000 in 2023/24. This brings the total saving per annum after 2023/24 to the £3m.

2. 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 2021.

3. The Draft Budget is built in conjunction with the MTFP and will be presented to Members at the December Cabinet.

Background & Context

<u>The Economy</u>

4. The impact on the UK from coronavirus, together with its exit from the European Union and future trading arrangements will continue to have a major influence on the economy over the life of the MTFP. The resurgence of demand has led to an unexpected rise in inflationary pressures, which is heightened in the UK following its departure from the European Union and disruption to supply.

5. UK CPI (Consumer Price Inflation) for August 2021 was 3.2% and this is expected to increase beyond 4% in the near term. Although it is anticipated that transitionary factors will unwind overtime, there is recent concern from the MPC (Monetary Policy Committee) that this could lead to longer term inflationary expectations that may require tighter fiscal policy to control (increase in interest rates).

6. The MTFP assumes bank rates to rise gradually over the term of the plan ranging from 0.15% in 2022/23 to 0.5% in 2026/27, although given recent events this assumption could be at risk over the medium term with the acceleration to 0.5% coming as soon as 2023/24. The BoE (Bank of England) MPC meetings will be monitored carefully in conjunction with market commentators to keep abreast of changes in base rate forecasts which will need to be factored into future models.

7. The most recent labour market data for the three months to August 2021 showed the unemployment rate to be 4.5% which is 0.6 percentage point higher than before the pandemic. The level of vacancies also continues to increase with 1.102m for the three months to September, some 318,000 above pre-pandemic levels.

8. Vacancies in the market and a smaller proportion of lower paid jobs are increasing average earnings with regular pay growth (excluding bonuses) reported at 6% for the 3 months to August 2021 (3.4% inflation adjusted).

9. To recognise increases in market rates, the new Health and Social Care Levy, and freezes to personal allowance increases, the MTFP has allowed for a 4.4% increase in employee costs for 2022/23, this includes 1.4% for incremental rises and employer costs relating to the new Health and Social Care Levy.

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.

11. Government's focus during 2021 has been the COVD19 pandemic and rolling out the vaccine, containment of the virus whilst balancing this against the pressures within the economy. The result of this is likely to see the reforms to various Local Government funding streams being delayed including the fair funding review, business rate retention scheme and the comprehensive spending review (multi year settlement) for a further year, and the Council has made the assumption that the reviews will now be implemented in 2023/24.

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 a consultation which ended in April around reforming the scheme to target more focused housing delivery but the outcome of the consultation has yet to be published. The MTFP assumes a one off allocation for 2022/23 with no legacy payment contributing to the annual budget moving forward. This receipt will be set aside for corporate projects.

14. The EU Exit has had less of an early impact than anticipated, although this was largely mixed in with the emergence of the Covid Pandemic so it was difficult to differentiate between the two events. The two events are now progressing as covid support unwinds and the recovery phase begins. Pressures from the EU Exit are now materialising (as identified in the Economic section of this report) with trade deals and negations to alleviate things such as HGV driver shortages taking centre stage. The Council has been supported to manage disruption arising from the EU Exit as a gateway to Europe, but it is unclear if any further economic support to will be given by Government to support rising costs.

Local impact of Government Policy

15. 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.

16. Perhaps the biggest areas where we are seeing the impact of government policy locally is the development of the Ashford Port Health Facility at

Sevington. In addition to this the Government has been very proactive in tackling Homelessness however, it is still a major budget pressure at Ashford and throughout Kent although the Council is looking to reduce costs through building its own specialised units

Key Assumptions

17. 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.

18. The MTFP has benefitted this year from the prudent assumptions made in the 2021-2026 MTFP, as many of the pressures around the Collection Fund were not as bad as estimated at the time. It should be recognised that these benefits are one-off and should not be expected year on year.

19. Although this plan is not projecting a recession, there are some inflationary pressures in the short term that will have an impact on service and project delivery although, these are expected to dissipate over the medium term. Inflation is a factor that needs to be managed carefully within any financial planning regime. CPI is increasing sharply this year, and this is planned to continue until the end of this financial year. The Council is then forecasting CPI to fall within 2022/23 returning to the BOE 2% target by 2023/24. The Council uses Arlingclose (Treasury Management Advisors) for estimates and Government publications.

20. Interest rates have been forecast in line with the Arlingclose estimates although, there has recently been some upside risk added to those assumptions. 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. During 2021/22 the Council fixed £32m at a rate of 1.56%, this increases the cost of finance costs overall however, this is offset by reducing the risk of interest rate upward movements.

21. Cost of living pay increase is forecast to be 3% in 2022/23. The Council recognises that is needs to keep the salary bill under control so in future years the increases could be offset against reduction in staffing levels through digitalisation and other efficiencies, with a focus on natural wastage. The increment salary increases are contractual and are included in the all years of the plan at 0.7% of the total salary bill, and additional 0.7% was added to 2022/23 to cover the Employer element of the new Health and Social Care Levy.

22. There has been salary increases in the Aspire team adding a pressure of £75,000 in the base year, this was to recognise that they complete a 40 hour working week as opposed to normal officers who are contracted to a 37 hour week.

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 historical data shows a lower level are usually completed than permitted. There is also downward pressure from developments that are captured by the Stodmarsh

issue, although there is a plan to mitigate this in the future a pressure is still coming through where work cannot be commenced until the mitigation strategy is approved. These assumptions drive figures for growth in tax base which ultimately impacts upon Council Tax Yield, and previously the new homes bonus receipts, so possibly a future scheme.

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 2022/23.

25. Council Tax base is estimated to show a strong recovery from levels estimated for 2021/22, the furlough scheme lessened the impact of estimated job losses and business rates and additional reliefs held up the business rate income, although partly from S31 grants. Although the furlough scheme is due to end soon there is a demand for staff so increased levels of Council Tax Support claims are not expected. There is also an expectation that people will go out and start spending, enabling business to continue to operate although recent inflationary pressures may subdue this.

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 2023/24.

    c. The Council is expecting a one off Lower Tier Grant in recognition that Government Funding has fallen and the Council is receiving funding below the calculated spending power or the authority. This is expected to be around £700,000 and forms part of the MTFP and budget.

<u>Developing Future Income Streams</u>

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, £850mincluded within the plan with significant drawdowns in 2022/23 to 2023/24. These loans have been re-profiled to recognise that developments coming forward have been delayed due to Stodmarsh. Future projects that have not yet been approved or started have not been included.

29. There is an expectation in the plan that the Council will earn £100,000 additional income per annum from commercial ventures.

MTFP Forecast

30. The forecast detailed in the table below takes into account the items discussed above. The forecast, which is not cumulative, shows an overall balanced plan for the 5 years. However there are pressures in the early years of the plan and these need to be managed.

31. The 2022/23 budget has a pressure of £566,000 and 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.

32. 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.

33. 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.

34. Overall the MTFP is roughly balanced across the 5 years with the cumulative position reporting an annual surplus of £111,000 in 2026/27.

Table 1 – Medium Term Financial Plan projections

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Government Grant	(779)	(83)	(83)	(83)	(83)
Retained Business Rates	(4,685)	(5,194)	(5,754)	(6,350)	(7,040)
New Homes Bonus (100% transferred to Improvement & Project Fund)	(730)	0	0	0	0
Council Tax (including estimated surplus £400k)	(8,703)	(8,687)	(9,103)	(9,533)	(9,977)
Grants)	(44,861)	(45,200)	(45,570)	(45,950)	(46,341)
Base Budget Gross Expenditure	58,968	60,935	60,811	61,437	62,078
Net Interest and MRP costs	1,775	2,918	3,625	3,917	3,725
Company and Commercial income (excl. debt)	(1,799)	(2,920)	(3,579)	(3,815)	(4,048)
Reserve Transfers	1,380	(730)	0	0	0
BUDGET GAP	**566**	**1,039**	**347**	**(377)**	**(1,686)**
Cumulative GAP	**566**	**1,605**	**1,952**	**1,575**	**(111)**

Reserves Strategy

35. The Council holds a number of reserves to ensure it has enough money to respond to and cover future risks such as maintenance of assets, changes to government funding and prevailing economic conditions, such as Covid19. Some reserves are also identified to support the corporate plan priorities and promote economic growth with the borough.

36. The Cabinet review these reserve levels based on a recommended strategy that considers the Council's Net Revenue Budget, risks present and emerging, and the growing asset base.

37. The Council also holds a number of ring fenced reserves which, need to be held separately for the specific purposes.

38. The table shows reserve levels as at 31 March 20221 and the forecasted position as at 31 March 2022.

General Fund Revenue Reserves	**Balance at 31 March 2021**	**Balance at 31 March 2022**
	£'000	**£'001**
Unearmarked General Fund Reserve	**2,562**	**2,562**
Earmarked Reserves		
Recovery Project Reserve (now including Victoria Park)	1,063	263
Climate Change Delivery Fund	2,000	2,000
Improvement Delivery Fund	3,000	3,215
Economic Growth and Risk Fund	9,000	8,385
Fund Future Expenditure (Risk, Legislation, Transformation)	4,553	4,617
Provide for Maintenance of Assets	3,500	4,050
Provision for Discretionary Spend	**23,116**	**22,530**
Required by Statute Reserves and other ring-fenced amounts	5,955	3,257
Section 31 grants and relief reserves (ring-fenced)	13,000	0
Developer Contributions	5,971	5,971
Amount ring-fenced, held under statute	**24,926**	**9,228**
Total Reserves Position	**50,604**	**34,320**

39. 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.

40. The Council has a MTFP pressure of £1.95m over the next three years that will need to be funded from the Economic Growth and Risk Fund (Reserve), this can then be replenished (if appropriate) in years four and five of the plan when forecasted surpluses are anticipated.

41. The Council has a General Fund (property & land) asset base of around £130m, and at the start of this year asset management reserves held £2.5m, which is held within the Provide for Maintenance of Assets reserve. This amount is increased annually through a base budget contribution of £600,000 (previously £500,000) and an external borrowing limit of £500,000 per annum in the Capital Plan.

42. 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.

43. The new Corporate Plan for 2022-24 has a number of key priorities including progressing towards a Carbon Neutral Council for which a climate change delivery reserves has been established.

44. Future projects and priorities will need to be assessed and appropriate funding identified before they are approved. The following should be considered:

    a. Capital reserves will be utilised if available for capital project.
    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, giving regard to new restriction on borrowing for what could be classified as 'debt for yield'.
    c. Projects outside of (a) and (b) will 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 Council liabilities.

Balancing the Budget Gap

45. The MTFP for the Council shows a cumulative surplus over the 5 years period with sufficient reserves earmarked to fund the cumulative deficit through year one to four.

46. This positive position is a direct reflection of the difficult choices made in 2021/22 where £3m of savings were identified as part of the budget build, with £762,800 still to be delivered in 2022/23 the need to deliver on these proposals is fundamental to balancing the MTFP.

47. Clearly, there will be some need to add additional resources to the Council, income streams may over/under achieve, external factors such as inflation will add pressures, but having a strong MTFP base gives the Council scope to flex the plan without undermining the long term financial stability of the Council.

48. The council set out some objectives last year to manage pressures to reduce a widening budget gap however, despite the improved position these principles should continue to be adopted to further strengthen financial resilience and generate opportunities.

49. This will be achieved through:

    a. Cost Awareness – Controlling our costs
    b. Income generation – Exploiting opportunities
    c. Working smarter – Empowering staff through digital and transformation

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

51. The Investment Strategy and generating future income to support the underlying budget is being continuously reviewed.

Risks

52. Members are reminded the majority of the issues in this reports are risks in themselves. There are a number of smaller risks to the MTFP that have not been mentioned in the report and an assessment of those risks are explored in this section.

53. The Council has recruited a substantial number of Officers to deliver the Ashford Port Health Facility at Sevington. Despite Ashford being ready to deliver this statutory service, Government has delayed the opening of the facility and therefore no fees or charges are being collected to offset costs. The Council is working closely with DEFRA with the expectation that all lost income from the delays in opening will be met to cover expenditure. The Council will also push for a longer agreement to underwrite any losses in the first years of operation to mitigate any risk to the Ashford Tax Payer. Perhaps a greater risk is the need to build a specific contingency reserve to manage fluctuations in income streams in this business area. This contingency may not be funded by government and need to accrue over the first years of operation. If DEFRA do not support this then any costs could fall upon the Councils other earmarked reserves to manage

54. 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, for example On 20 October, the Office for National Statistics published the inflation figures for September. These are usually used for setting the business rates multiplier for the year ahead, and therefore the level of local authority funding from business rates retention. The 12 month CPI inflation amount was 3.1%, down from 3.2% in August 2021. In addition, the latest RPI figure was also published, at 4.9%, up from 4.8% in August 2021. It was expected that the government would cease from 2020 to provide an additional grant to local authorities making up the difference between CPI and RPI inflation on their business rates income. However, for 2020 and 2021 the grant continued, and authorities were given RPI via the multiplier cap grant. These figures are higher than in the MTFP. These movements will be picked up by the Budget Setting Process and monitored through the Financial Monitoring process and regularly reported through to Cabinet.

55. The Stodmarsh position has been considered when looking at building within the Ashford area however, if the proposed mitigation is delayed, there could be a continued pause in development affecting planning income and also the tax base growth assumed within the plan.

56. Government funding review outcomes are still uncertain and could fundamentally affect the MTFP position. Government has indicated that reviews will commence shortly but having already been delayed on several occasions certainty is not guaranteed. Local Government needs certainty on funding from government so that it can plan for the challenges ahead, until that it achieved it is very difficult to plan for the medium term.

57. Continued pressure on income streams, including Property Commercial Property income, there is an assumption income will recover over the plan. Parking income has been permanently reduced in the MTFP by 15%

however, there could be further reductions over the plan based changes in habit.

Consultation Planned or Undertaken

58. The Draft Budget will be presented to the November 2021 Cabinet meeting requesting approval to be passed for budget consultation through the Overview & Scrutiny Task Group and externally (residents and businesses).

59. This consultation period will run in December and into January 2022 if necessary.

Next Steps in Process

60. The Draft Budget is prepared on the basis of the Medium Term Financial Plan and this is presented to members at Cabinet on 25 November. 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.

61. 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 2022 and this will then be recommended for approval to Council on 3 March 2022.

Conclusion

62. 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

63. I am pleased to see that the financial position of this Council is strong and although there are pressures in the first few years the Cabinet have set aside Reserves to cover these deficits.

64. I am pleased to see the reserves position, not only includes a safety net for the MTFP but also sets aside funding to address decarbonisation and corporate projects.

65. 2022/23 will be a challenging year as we face many risks including those from inflationary pressures, Stodmarsh and the introduction of Port Services. 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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Appendix A

Key Assumptions

	2022/23	2023/24	2024/25	2025/26	2026/27
Inflation					
Pay	4.40%	0.70%	1.70%	1.70%	1.70%
Contract	3.50%	3.00%	3.00%	3.00%	3.00%
Income	3.50%	3.00%	3.00%	3.00%	3.00%
CPI (consumer Price Index)	2.50%	2.00%	2.00%	2.00%	2.00%
RPI (Retail Price Index)	3.50%	3.00%	3.00%	3.00%	3.00%
Utilities	3.50%	3.00%	3.00%	3.00%	3.00%
Benefits	1.00%	1.00%	1.00%	1.00%	1.00%
CT increase	2.90%	2.82%	2.74%	2.67%	2.60%
Pension	4%	4%	4%	4%	4%
Bank of England Rate	0.15%	0.30%	0.30%	0.40%	0.50%
ST Borrowing	0.20%	0.20%	0.35%	0.50%	0.50%
LT Borrowing	1.55%	1.75%	1.95%	2.00%	2.25%
ST Investment	0.05%	0.05%	0.05%	0.15%	0.25%
LT Investment	3.15%	3.30%	3.30%	3.40%	3.50%
Company lending	2.85%	3.05%	3.25%	3.30%	3.55%