Agenda Item No:	6
Report To:	Cabinet
Date of Meeting:	27 October 2022
Report Title:	The Medium Term Financial Plan 2023 to 2028
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Portfolio Holder	Cllr. Neil Shorter
Portfolio Holder for:	Finance & IT

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Summary:

This report presents the Medium Term Financial Plan (MTFP), a budget forecast including underlying assumptions, covering a five year period from 2023 to 2028 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 2022.

The Draft Budget is built using the assumptions in the MTFP and the Draft Budget will be reported to Cabinet in November 2022. However, it should be noted that this report is out of date already due to the significant volatility and uncertainty in the economy.

The MTFP was developed with economic data at the end of September before the mini budget was announced, and before it was then (mostly) reversed. Officers will endeavour to set the draft budget within the parameters of the MTFP but if material changes are necessary they will be reported within the draft budget report.

The MTFP presented highlights a £2.6m budget pressure for 2023/24, with a £10m cumulative pressure across the five year period. This forecast is likely to worsen with the latest indications that the public sector will be tasked with further efficiency targets to fund Government priorities, and start reducing Government debt incurred during the pandemic, and current cost of living crisis.

It will be necessary for the Council to identify significant savings moving forward to ensure it maintains its financial resilience, and deliver the priorities within the Corporate Plan, accepting a much narrower, affordable programme.

The Council has a good level of reserves but these should only be used to fund immediate, short term pressures.

Key Decision:	YES
Significantly	All

Affected Wards:	
Recommendations:	**The Cabinet is recommended to:-** **I. Note the forecast and accept the underlying assumptions, noting economic volatility** **II. Note that 2023/24 Government funding allocation is forecast to be the same as last year, real term cut.** **III. Note the reserve position and support the proposed use of reserves to fund the 2023/24 budget deficit.** **IV. Delegate authority to the Deputy Chief Executive in consultation with the Portfolio Holder for Finance and IT to agree the Council's continued participation in the Kent Business Rates pool** **V. Support Management, in conjunction with members in developing a sound and robust schedule of savings to bridge the funding deficit highlighted within this report.**
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. The Plan does include a number of risks and these are explored further throughout the report.
Legal Implications: Text agreed by the Solicitor of the Council on 18/10/2022.	Developing savings proposals will need to take account of the Council's statutory obligations to provide particular services.
Equalities Impact Assessment:	The assessment informs the Final Budget Report, which will be reported to February 2023 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 throughout this report and within the risk section. These risks are changing rapidly and in preparing this forecast and the speed of these changes mean that the forecast indicates a direction of travel. There are many risks including,

- Government funding
- Uncertainty within the economy,
- Inflationary and interest rate risks.

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.

The forecasts contained in this report will require the Council to make some difficult decisions to balance the budget in the medium term, these will need to be taken in a measured way balancing using reserves and reductions in service provision and increasing levels of council tax.

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 2023-2028

Introduction

1. This report presents the Medium Term Financial Plan (MTFP/the Plan) for the period 2023 to 2028.

2. The plan considers how the Council can balance reconciling policy and performance within the resources available. This report sets out the context and provides an overview of the latest position in preparation of the detailed budget that will be presented to Cabinet and Council early 2023.

3. The report has been developed on current service activities, current understanding of future levels of government funding and key assumptions from government and professional advisory sources. As in previous years the government's announcement on the financial settlement will not be formalised until later in the year, when it is likely that the outcome will be to provide resources at 2022/23 levels, and therefore report that "no cuts have been made" overlooking the impact of inflation.

4. As reported last year, when the Council was one of 10% of Councils not to receive an increase in core spending power, despite the national average being 6.9% increase, with a 'roll over settlement' Ashford will be left to absorb inflationary pressures, resulting is significant real terms cuts to funding for a second consecutive year.

5. The Leader of the Council has previously written to the Government expressing concern over the 'real' cuts to funding although the response was disappointing. The Council will need to continue to feed into consultations around funding policy and continue to state our case.

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

Council Priorities

7. In 2021 the Council adopted its new Corporate Plan 2022-2024 which introduced "The Ashford Ambition" and provides strategic direction for the future and is the catalyst for delivering corporate priorities.

8. The Ashford Ambition is "to be a thriving, productive and inclusive borough in 2030 and beyond; a vital part of Kent and the South East where local businesses, social enterprises, communities and the public sector provide collective leadership to promote shared prosperity, happiness and wellbeing"

9. The Ashford Ambition is supported by three priority themes that are detailed below, the anticipated delivery outcomes are expanded upon at **Appendix A**:-

    - Green Pioneer
    - Caring Ashford
    - Targeted Growth

10. The new Corporate Plan has identified a number of strategic projects that will be supported and overseen by the Ashford Strategic Delivery Board and can be seen on page 17 of The Corporate Plan.

11. One of the significant projects is the redevelopment of Newtown Works and the Council is now the majority shareholder of the 'Ashford International Delivery Company' and will work with the other shareholder Quinn Estates Kent Ltd. to progress work on this exciting project.

12. The Newtown works project and development has been awarded £14.7m from the Government Levelling Up Fund following a successful application by the Council, and supports the overall viability of the scheme.

13. While the Corporate Plan very much sets the strategic direction for the Council to 2024, with many of the key projects running well beyond that date. However, the economic outlook has significantly changed since the inception of the new corporate plan, and the Council will need to re-focus on delivering essential services to the stakeholders and only the key strategic priorities. In delivering these services the Council need to ensure stakeholders are receiving value for money service but also understand the service level which is affordable, and what is and is not a statutory function.

14. For the 2023/24 budget the recommendation is to use the Economic Risk reserve to fund any residual budget deficits. This approach will allow time for management, in conjunction with the incoming administration to undertake a thorough and well considered piece of work to determine where the Council can make savings, or generate additional resources. The current administration has already started to assess measures to address the budget shortfall so that the incoming administration is well placed to make a measured approach to the economic situation evolving. This is detailed further in this report (paras 49-59). There will however be a need to focus on the core statutory responsibilities of the Council, and re-focus the ambition within Corporate Plan to target the 6 strategic priorities 'Super 6' that have been identified by the Council.

Current Position

15. 2022/23 was supposed to be the year that the economy emerged from Covid and the 'lost years' were recovered as people returned to the high streets, developments progressed and things would start to look a little more positive.

16. However, during the build-up and subsequent Invasion of Ukraine by Russia in March 2022, the cost of energy significantly increased driving up inflation to 10.1% in July 2022. In response to rising inflation the Bank of England (BOE) Monetary Policy committee (MPC) have sharply increased borrowing costs with interest rates hitting 2.25% in September 2022 having been at 0.10% on 15 December 2021, further increases are also expected.

17. The significant increase in energy costs and subsequent rise in inflation has created a cost of living crises with government intervention capping energy costs to support households from further unaffordable rises.

18. However, the Council is not immune to the current financial crisis and reported to Cabinet in September a quarter one budget pressure of £1.7m, largely due to an increase in the number of people presenting as homeless increasing temporary accommodation costs, 13% (£385,000) increase in the waste collection contract, savings not being delivered as anticipated and loan

facilities extended to the Council's subsidiary company not coming forward as quickly as forecast.

19. In developing our medium and longer term plans the Council will need to have regard to the broader context in which we will be working. This includes:-

a. Inflation at higher levels than the 2% targeted by Government, which the Bank of England Monetary Policy Committee is targeted with delivering.

b. Further increases in interest rates, potential to 5% before coming back down over the medium term although, although this is a continually changing picture.

c. Ongoing geo-political tensions including the war in Ukraine, China Zero Covid Policy.

d. Continued cost of living crises and the impact this will have on residents within the borough, potentially increasing demand on welfare services and increasing levels of council tax and Housing arrears.

e. A decline in the use of fee paying services and income levels to the Council, such as Parking and Garden Waste income.

f. New Prime Minister and Chancellor who have changed the economic policy and introduced tax cuts that are yet to be fully funded, despite promises of no cuts to public spending, there is certainly no indication of additional funding to support inflationary pressure.

g. There is significant public debt from both the pandemic support packages and the energy support packages that will need to be funded at some stage.

h. Fair funding and Business Rates reform, these have been on the Government agenda for a while now but due to external factors are continually being delayed in favour of one year settlements and continuation of existing schemes.

i. New Home Bonus, this once very attractive building incentive scheme has been cut back to one year only settlements, and a consultation to replace the scheme has undertaken in July 2021 but not further information has been provided.

j. Uncertainty over Ashford Port Health service and what coverage and resource will be needed long term.

k. Possible recession and how this will impact the local and national economy.

l. Responding to the national and local climate change issues, and what can be done within financial constraints to deliver these objectives.

20. The lists above is not exhaustive but gives an indication of the uncertainty facing Local Government finances that will need considered. From looking at the new environment the only clear message is that the Council will continue to be financially challenged and will need to respond, as we have before in reviewing how we operate, to ensure that the Council remains financially resilient, and to ensure statutory services can be delivered over the longer term.

21. The areas above are covered in more detail in the Policy, Economic Outlook and Risk report at **Appendix B.**

Medium Term Financial Plan, Savings and Reserves

Key Assumptions

22. The Medium Term Financial Plan is based on a number of forward looking assumptions that are detailed at **Appendix C** with supporting narrative. However**,** it should be noted that these assumptions were developed towards the end of September (Pre Mini Budget), and given the volatility and uncertainty and in the economic outlook further consideration and some changes to the assumptions may be necessary as the draft budget is developed. **NB.** Members should be reassured that the Finance Team, Management Team and the Portfolio Holder are continuing to keep an eye on these factors.

23. There are other assumptions and considerations that were considered when formulating the MTFP and theses are discussed below.

24. An allowance for the new refuse collection contract of £1.5m has been allowed for in the plan. This is an indicative figure and has upside and downside risk which will be confirmed once the new agreement is awarded.

25. An increase in budget of £80,000 has been added to the Monitoring Centre cost centre following a service review and regrading of Operator salaries.

26. The plan has allowed for the Council Tax increase for 2023/24 to be ring-fenced for one year to support the newly formed welfare advisory group.

27. It is anticipated that the rules around Council Tax increases will not change for 2023/24 therefore allowing the Council to raise Council Tax by 2% or £5 whichever is the greater without the need for a local referendum. 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 2023/24, taking the average Band D property to £182.50, keeping Ashford as one of the lowest in Kent.

28. It is anticipated that the Council tack increase will add, subject to final tax base numbers circa £245,000 to the Councils budget. It should also be noted that when Government calculates grants to Local Authorities, it is always done on the basis that Council Tax revenue has been maximised, equally given the controls in place or limiting Council Tax increases, if you freeze for a year it is then incredibly difficult to catch up.

29. 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.

30. 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 assumptions 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.

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 that the business rate scheme will continue in its current form for the period of this plan, or that sufficient tapering will be introduced to protect the Council's position in the transitional stage.

Developing Future Income Streams

31. The Commercial Investment Strategy, comprises of three elements, Real Estate Investment, Loans to the Property Company and Strategic Investment.

32. The Medium Term Financial Plan includes income from projects that have been confirmed, such as investment in the Property Company, although given the current economic uncertainty the viability of projects will need to be reassessed. If projects are delayed then this will impact the net receipt to the Council and should be recognised as a risk to the forecast.

33. There is an expectation in the plan that the Council will earn £200,000 additional income per annum from commercial ventures.

MTFP Forecast

34. The MTFP for the period 2023/24 to 2027/28 is currently forecasting a £9.98m deficit over the period with £2.6m within 2023/24.

35. As discussed previously this MTFP is full of uncertainty and there is a distinct possibility that this forecast could change as we develop the draft budget.

36. It can be recognised though that the Council is faced with an incredibly challenging economic outlook which will need careful but robust action to close the budget gap. This will require difficult decisions to be made as we review our service provision and expenditure.

37. It is recommended that any residual budget gap identified following the completion of the Draft Budget be met from the Economic risk reserve. This will enable Management in conjunction with Portfolio Holders and the incoming administration to make decisions on what savings can, and need to be taken forward.

38. If over the next 18/24 months the deficit is not addressed then the Councils reserves and ability to address funding issues in the short term will diminish, and the Council could be put into a position of considering its long term financial sustainability and statutory requirement to deliver a balanced budget.

Medium Term Financial Plan projections

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Government Grant	(417)	(417)	(87)	(87)	(87)
Grants	0	0	0	0	0
Retained Business Rates	(7,502)	(7,983)	(8,174)	(8,418)	(8,660)
New Homes Bonus (100% transferred to Improvement & Project Fund)	(1,136)	0	0	0	0
Government Funding	(9,055)	(8,400)	(8,261)	(8,505)	(8,747)
Council Tax	(8,946)	(9,375)	(9,817)	(10,273)	(10,744)
Total Income Receipts (Including Specific Grants)	(47,046)	(48,162)	(48,611)	(48,961)	(49,343)
Base Budget Gross Expenditure	65,818	67,580	67,965	69,299	70,648
Net Interest and MRP costs	4,065	4,776	5,494	5,183	5,335
Company and Commercial income (excl. debt)	(2,367)	(4,015)	(4,919)	(5,220)	(4,689)
Ring fence Council Tax growth to reserves	300	(300)	0	0	0
Reserve Transfers	(162)	(568)	0	0	0
BUDGET GAP	**2,607**	**1,536**	**1,851**	**1,523**	**2,460**
Cumulative GAP	**2,607**	**4,143**	**5,994**	**7,517**	**9,977**

Reserves Strategy

39. 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. Some reserves are identified to support the corporate plan priorities and promote economic growth with the borough and support the Climate Change agenda. If these reserves are diverted to balance the budget then the delivery of these priorities will be put into question.

40. Management in conjunction with Members will need to review the reserves available, and considering the emerging economic risks re-profile accordingly to support the Council's Net Revenue Budget position, risks present and emerging, and the growing asset base.

41. The Council holds a number of ring fenced reserves which need to be held separately for the specific purposes which are not shown.

42. The table below shows reserve levels as at 31 March 2022 and the forecasted position as at 31 March 2023 based on current commitments.

Analysis of Revenue Reserves (non ring-fenced)	Balance at 31 March 2022	Balance at 31 March 2023
	£'000	£'000
Un-earmarked General Fund Reserve	**2,562**	**2,562**
Earmarked Reserves		
Recovery Project Reserve (now including Victoria Park)	1,093	0
Climate Change Delivery Fund	2,000	1,920
Improvement Delivery Fund	3,000	1,750
Economic Growth and Risk Fund	8,345	5,406
Fund Future Expenditure (Risk, Legislation, Transformation)	6,104	6,020
Provide for Maintenance of Assets	4,932	4,182
Provision for Discretionary Spend	**25,474**	**19,278**
Total Reserves Position	**28,036**	**21,840**

43. The Council's reserves policy is to hold a minimum 15% of Net Budget Requirement as the un-earmarked General Fund Balance; this is around £2.5m.

44. The reserves are forecasted to drop by just over £6m during 2022/23 due to a number of large items being funded from reserves including:-

- £0.73m contribution towards Victoria Park Redevelopment
- £1.25m of revenue to fund capital expenditure
- £1.7m to fund forecasted 2022/23 deficit
- £0.5m for continued support for Tenterden Leisure Centre
- £0.75m pressure on Repairs and Renewals Reserve

45. This is a significant reduction in reserves for one year and highlights the need for the Council to be mindful when committing reserves, especially to projects that do not generate any direct income to the Council, or adds pressure for maintenance liabilities.

46. The Council makes an annual contribution of £600,000 to the Repairs and Renewals reserve from revenue, and although this adds pressure to the operational budget it is essential to carry out repairs and maintenance to the Council's General Fund (property & land) asset base of around £130m. The Capital plan also allows for £500,000 of external borrowing to be made.

47. The Council has a MTFP pressure of £2.6m next year and £10m over the life of the plan. There is capacity to fund the 2023/24 deficit from the Economic Growth and Risk Fund (Reserve). If this action is necessary reserves will fall below £20m, and £12m over the life of the plan if efficiencies are not delivered. Clearly this would be an unsustainable trajectory and would restrict the Council's ability to support corporate projects and priorities, and undermine the long term stability of the Council.

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

- Capital reserves will be utilised if available for capital projects.
- 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’.
- 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 - Developing a core service offer

49. The MTFP for the Council shows a cumulative deficit over the 5 years period with a significant pressure of £10m. Although the Council has sufficient reserves to fund this deficit, by not taking action the Council would be reducing its financial strength and be on an unsustainable trajectory.

50. The financial resources are also likely to come under further pressure with government policy now indicating that the public sector will be asked to find further efficiencies, as well as absorbing inflationary pressures, all in all resulting in real 'significant' cuts to funding.

51. To ensure that the Council maintains it strong financial standing and demonstrates sound financial management it will be necessary to explore all saving options within the Council and make some difficult choices between statutory and non-statutory services, and at what level can, and should be delivered going forward. It is therefore proposed that the Council develop a core service offer understanding what services, and to what standard are the minimum acceptable service levels and then seek to balance this delivery within the resources available.

52. In addition the breadth to the projects within the corporate plan will need to be reviewed and where resources have been allocated to deliver them they will need to be reviewed against this reviewed focus. This will seek to manage the use of reserves and also ensure that capital projects that rely on debt funding are sustainable.

53. It will be necessary to ensure any savings proposals are well considered, have Officer and Member support, have clear timeframes for delivery, and be pro-actively monitored against those timeframes and reported through to Management and Members accordingly.

54. To enable the above piece of work to be properly undertaken, it is proposed that the deficit for 2023/24 be earmarked from reserves, however, as savings are identified and realised, pre and post April 2023 the draw on reserves can be reduced.

55. Against this picture of tightening resources the policy for setting council tax should be considered. Governments funding strategy for local government in recent years has been to reduce central support and rely on increasing Council Tax to offset (partially) these reductions. Therefore; it is advised that the Council continues to increase Council Tax by the maximum permitted as per Government expectations.

56. The council should also continue to follow principles that have been instilled in recent years to strengthen financial resilience and generate opportunities.

57. 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

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

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

Risks

60. Members are reminded that the majority of the issues in this report 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.

61. The Council has been asked to reduce the number of staff it has employed for Ashford Port Health with a view to becoming operational late 2023. Currently DEFRA are supporting all the costs associated with Port Health, however if this support ends before the service is operational and recovering costs, then the risk of any deficits could fall on the Council.

62. All the assumptions within this report were at a point in time, and in the current climate things are changing daily so this information is instantly out of date. Therefore budgets will be built within the principles of the MTFP guidelines, but where changes are material budgets will be set and changes reported within draft budget to Cabinet.

63. 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.

64. Government funding reviews are continually being delayed and with latest commentary this could result in further cuts to Government funding. As information become available budgets will be updated but any specific announcements are not expected until later in the year.

65. There has been wide media coverage about the viability of Councils and the use of a S114 Notice. The Council is required by statute to deliver a balanced and deliverable budget annually. Whilst this version of the MTFP can be funded from reserves the current economic conditions could lead to an unsustainable long term financial position if the deficit is not properly addressed. In the event that the Council's S151 Statutory Officer had concern over the long term financial health of the Council then they would be legally required to issues as S114 notice to raise the concern with Government. It is the opinion of the S151 officer that at the moment the Council is not in this position but should affirmative action not be taken to find the necessary savings identified to address the MTFP deficit, then we could slowly move in that direction.

Consultation Planned or Undertaken

66. The Draft Budget will be presented to the November 2022 Cabinet meeting and will request approval for the budget to be passed for budget consultation through the Overview & Scrutiny Task Group and externally (residents and businesses).

67. This consultation period will run in December and into January 2023 if necessary.

Next Steps in Process

68. Management in conjunction with members need to start drawing up plans to deliver significant savings over the life of the MTFP.

69. The Draft Budget is prepared on the basis/and principles of the Medium Term Financial Plan and this is presented to members at Cabinet on 24 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.

70. 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 2023.

Conclusion

71. Members are asked to consider and note this report along with assumptions made, accepting that there could be significant movement in assumptions due to the volatile economic conditions. Endorse the Reserves Strategy and delegate authority to the Deputy Chief Executive in consultation with the Portfolio Holder for Finance and IT to agree the Council’s continued participation in the Kent Business Rates pool

Portfolio Holder’s Views

72. The speed at which the Economic condition have changed since a year ago, have seen the Council move from a sound financial position to one with significant risk and pressures that will need serious consideration over the short and medium term.

73. To address these significant challenges, Members and Senior Management will need to work closely to down re-focus the priorities for the Council, and strike the right balance between levels of statutory service provision and delivering the big priorities in the Corporate Plan.

74. All members from all parties need to understand the risks identified in this report, recognise, and support the difficult decisions that will need to be taken.

Contact and Email

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Corporate Plan 2022-2024

Corporate Plan Priorities

1. Page 5 of the Corporate Plan expands further on the Theme, Challenges, Objectives and Outcomes of each of the corporate priorities, Green Pioneer, Caring Ashford and Target Growth.
2. All the themes work towards the Ashford Ambition and are focused to making Ashford a successful and prosperous Borough to work, live and visit.

Green Pioneer – Delivery Outcomes

- Homes are energy efficient and cheaper to heat. Renewable energy generation and consumption increases. Fewer local car journeys are made, air quality improves and residents are more active and healthy.
- Communities in urban and rural areas value, enjoy and respect the natural environment and the abundance of wildlife increases.
- A borough free of litter, where everyone takes responsibility for minimising the amount of waste they produce.

Caring Ashford – Delivery Outcomes

- Communities feel safe and secure with easy access to locally led services designed with communities to meet their needs.
- Local people seek positive change for themselves and others through the development of their knowledge and skills, improving social inclusion and employability.
- The lives of people with the worst health and wellbeing outcomes are improved.
- Cultural activities and events bring communities together, increasing tolerance, respect and understanding.

Targeted Growth – Delivery Outcome

- The borough attracts and grows businesses and industries that are innovative and sustainable that benefit local employment and incomes.
- Fast, reliable digital connectivity is available across the whole borough so no one is disadvantaged in accessing online services or doing business.
- Local business survival rates improve - The borough is a ‘year round’ visitor destination renowned for offering quality visitor experiences.
- Our town centres are lively, safe places where people of all ages live, work and visit, coming together to enjoy events and activities.

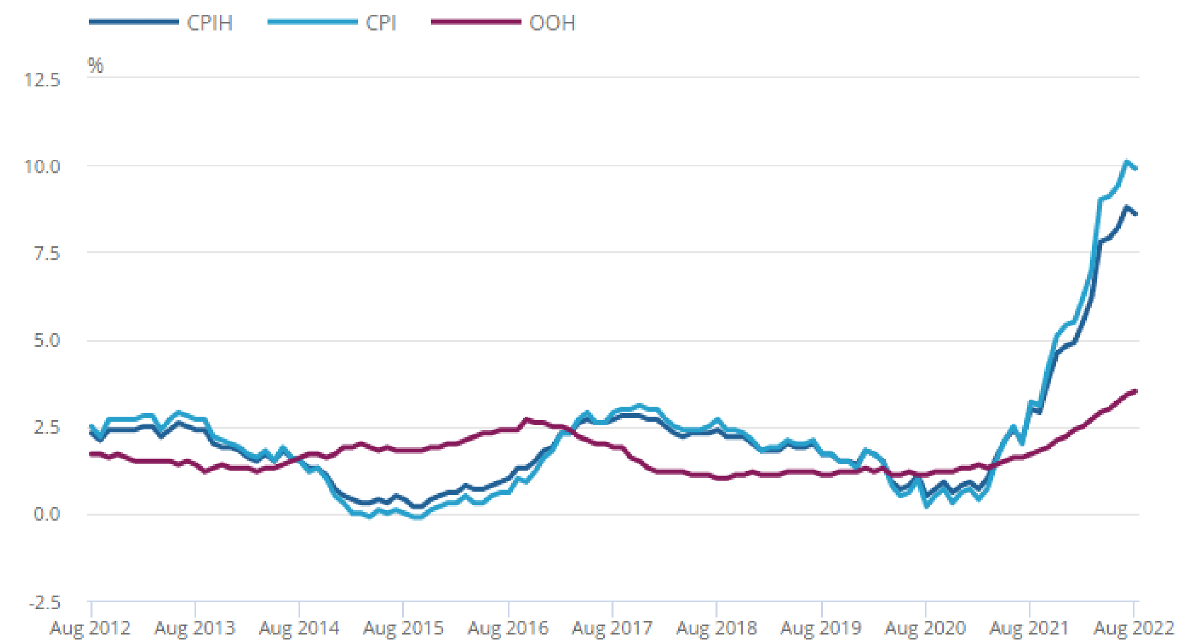
Policy, Economic Outlook and Risk

1. This appendix provides further details on the local and national policy decisions, and how the current inflationary and interest rate increases are impacting the Council.

Inflation

2. The increase in inflation started towards the back end of 2021 as pandemic fiscal related stimulus come to an end and Russia started manoeuvring more troops to the Ukrainian border which caused energy prices to increase rapidly on the threat of war. These prices fuelled inflation and once the high energy prices become sustained costs started getting added to everyday items which caused inflation to keep rising and become embedded.
3. The high inflation environment has created a costs of living crises that has needed the Government to introduce a cap on energy bills although prices continue to squeeze household incomes across the board.
4. We need to appreciate the severity and speed of the changes which were totally unforeseen and have left individuals and the Council exposed to significant increases in costs.
5. The chart below represents the annual movement in CPI (Consumer Prices Index) since 2012, and clearly show the severity and speed at which the inflation has increased.

CPIH, OOH component and CPI annual inflation rates for the last 10 years, UK, August 2012 to August 2022



Source [Consumer price inflation, UK - Office for National Statistics]

Source:- [Interest rates and Bank Rate | Bank of England]

6. Rising inflation directly and indirectly is already adding significant pressure to Council budgets. The most noticeable impact of direct inflation has been through the Council's refuse and recycling contract that had a contractual uplift of 13% in April 2022 adding an additional £385,000 to the 2022/23 budget. This is also common across all other smaller contracts which are seeing inflationary increases (above those budgeted for) as companies pass on costs to consumers, certainly where supplies are energy focused.

7. The Council is also experiencing significant increases in capital works costs as on top of inflationary pressures, there are continuing supply chain issues. This has driven up material costs considerably which are being priced into works. The Council needs to be mindful of this issue and consider the urgency and necessity of works, or options to reduce scope to bring the project within the original budget.

8. Rising inflation will also have an impact on the residents of the borough who will be looking at ways to save money, and in some instances have to make decisions over heating homes, or paying council tax and rent demands, which could lead to an increase in arrears owed to the Council.

9. There is concern, and already some indication that where households are looking to cut costs they are asking 'temporary guests/sofa surfers' to move on and are in some instances presenting as homeless, adding pressure to the Councils temporary accommodation budget.

10. With the potential of recession due to rising inflation and interest rates, there is also likely to be reduced demand for Council discretionary services, such as parking income, which still has not recovered to pre Covid levels, and environmental services such as garden waste bins and bulky refuse collections, the Council is already experiencing a decline in garage occupancy levels as people look to reduce costs.

11. Businesses around the town will also start to struggle as consumers look to cut back, especially within the Food and Beverage industry which was still recovering from the Pandemic. The Council has a number of units linked to this industry and given the economic climate there could be pressures on rent collection levels, and voids.

12. Overall rising inflation is non-discriminatory and will impact all businesses and residents within the Borough, including the Council, and we will all be tasked with tough challenges to do what is required, but against the backdrop of what is affordable.

Interest rates

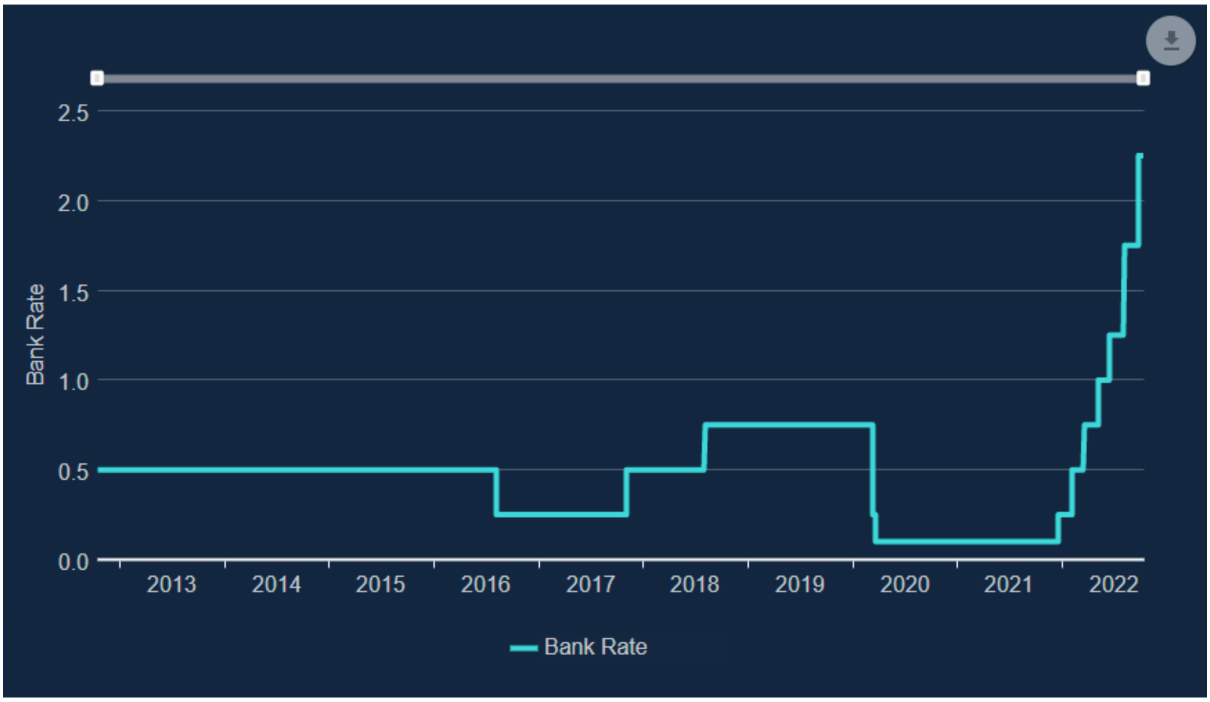
13. The Treasury Management Strategy for a number of years has been to maximise the benefits of short term borrowing rates with a view to taking longer term borrowing as rates started to climb, with the economic and professional guidance forecasting rises to 3% over a prolonged period. Although this strategy has been successful and has funded in year service pressures and help grow reserves, including the economic risk reserve.

14. However, in response to rising inflation as discussed above, the BOE have had to raise interest rates aggressively in an attempt to slow inflation. It is anticipated that further rate rises will happen to increase borrowing costs and reduce inflation by reducing people's disposable income levels and to stop us spending, thus fuelling inflation.

15. In addition to combatting inflation, political decisions and announcements have also created a spike in borrowing costs as UK bond prices increased as unfunded tax cuts were introduced. As a result of all the volatility both short term and long term interest rates have significantly increased.

16. The table below shows the sharp increase in interest rates which is used as a benchmark for the Council's short term borrowing costs with margins added for the duration of loans.

Official Bank Rate



17. The Council's General Fund is forecasting an overall borrowing requirement of circa £131m for 2023/24 of which around £25m is forecast to be for new capital expenditure.

18. The budget has always allowed for a gradually purchasing programme of longer debt and the Council took £32m from the PWLB in July 2021 of which £17m related to the general fund. This leaves a forecasted short term borrowing requirement of circa £114m for 2023/24.

19. In relation to budgets it is anticipated within the MTFP (which was developed before the mini-budget and based on external guidance) that the average cost of short term borrowing would rise from circa £0.20% (estimate for 2022/23) to 2.65% for 2023/24, an increase of 1,325%, or in monetary terms an increase in interests costs of £24,500 per annum, per £1m of debt.

20. The assumed rates have increased the budget for borrowing from £1.03m in 2022/23 to £3.33m in 2023/24, an increase of £2.3m, and there is still considerable risk to this budget with the current market volatility. The forecasted rate will be reviewed as the draft budget is developed, but to highlight the risk a further 1% increase in base rate to say 3.65% would add a further pressure of £1.2m to the 2023/24 budget.

21. To give an indication of the uncertainty in the markets, borrowing rates are sometimes being priced multiple times in a day, and at one point long term rates moved up and then back down by 1% overnight, the Council needs to wait for the volatility to settle before making strategic decision over the borrowing portfolio.

22. In relation to new loans to third parties such as the property company, the structure of the funding facility allows the Council to take a risk free margin over prevailing borrowing costs. However, the increase in interest rate costs will challenge the viability of external projects and therefore borrowing may not come forward as planned, which could add pressure to the budget, as has been the case in 2022/23.

23. The Finance Team will continue to work with its professional advisors to review the strategies to best manage the Council's investment and borrowing portfolios.

24. On a minor positive, the Council's liquid cash is generating a slightly higher return although this is dwarfed by increased borrowing costs.

Government Policy – Local and National Context

25. Following the removal of Boris Johnson as Prime Minister and the appointment of Liz Truss, the newly appointed Chancellor of the Exchequer (now removed) presented a 'mini-budget' that reversed planned tax rises and adopted a Trickle Down economic plan to grow the economy. However, economic markets reacted negatively and following 38 days of volatility he was replaced by Jeremy Hunt. The majority of the cuts have now been reversed and promises of protecting public expenditure have now turned to announcements that Government Departments will need to make spending cuts.

26. However, apart from the economic volatility, for Local Authorities the continual changes in policies further delay planned reforms to fair funding, and the potential for the Department of Levelling Up, Communities and Housing (DLUCH), to offer multiyear settlements to Local Councils. This constant deferral of reviewing funding reform creates uncertainty and has led to a succession of one year settlement deals, where new burden grants are made, but corresponding cuts to other grants leave the Council with the same total core spending power, just delivered in different grants, and ultimately with no additional funding for new burdens, not to mention no increases for inflation.

27. One of the biggest delays is to the reform of Business Rates, which after several years of discussion was abandoned, but still subject to new direction and review. Inadvertently this is positive for Ashford as we have a high level

of growth in the Borough which means we retain a greater share. However, financial modelling through our advisors forecasts a significant cut in resources once a baseline reset is complete. Any change is now not expected to 2025/26 but again this creates uncertainty for longer term planning.

28. 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. This arrangement is reviewed annually and this report asks for delegated responsibility for the Deputy Chief Executive in consultation with the Portfolio for Finance and IT to renew its membership if it continues to be advantageous for the Council.

29. New Homes Bonus funding is anticipated to continue to pay one year only settlements only, however this scheme is to be abolished and consultations took place in July 2021, again changes to Government has delayed the progression of a replacement system.

30. The other concern is around Government debt, the Government borrowed significant sums to support the Country through the Covid Pandemic and again has spent significant sums introducing the Energy Price cap. However, at some stage this debt will need to be repaid and it is possible that further cuts to departmental budgets, and in turn Local Government.

31. Liz Truss confirmed that there would be no cuts to public spending, but would make sure public spending is spent well, this could see money move around the system, but what is clear that there seems to be no indication of further funds being made available, in which case ‘real’ terms cuts allowing for inflation will need to be absorbed.

32. More locally the Council will bid fair well to its long term Leader Gerry Clarkson who has been providing political leadership for over 10 years. As with Central Government, a new Leader of the Council will have their own views on how services should be delivered moving forward.

33. Equally with local elections in May 2023, there is a possibility that the political composition of the Council could change and bring a change in strategic priorities and service delivery expectations.

Ashford Port Health

34. In September 2020 DEFRA (Department for the Environment, Food and Rural Affairs) informed the Council that the Sevington Inland Border Facility (IBF) was being designated a Border Control Post and the Council would become responsible for carrying out various port health controls on behalf of the Government.

35. The original plan to appoint 125 people to this service and the Council delivered on this plan, however Government have continually delayed the opening and adjusted the remit of the authority. The Council has now been advised that 54 Officers will be necessary to fulfil the checks required.

36. Although the costs are currently being underwritten by Government, structural changes have been necessary to accommodate the proposed changes and central overheads were allocated accordingly.

37. The changes have already increased recharges back to the general fund and there is a risk that any further changes will result in more costs being

transferred back to the general fund. Once the service is up and running it is anticipated to be self-funding through the charging of fees.

Changes in demand for services

38. With the Covid Pandemic and now the cost of living crises there is risk to the level of demand placed on services.

39. It is envisaged that the current economic conditions could increase the demand for Council Welfare services including, homelessness and revenues and benefits administration.

40. There could also be requests from the voluntary sector asking the Council to support initiatives to support vulnerable groups through food banks etc., as we did during the Covid pandemic, although that was largely passing through Government grants.

41. In relation to use of fee paying services, the Council could see a reduction in areas such as parking income, rental of garages and garden waste bins to name a few. The take up and usage of these facilities will need to be closely monitored to identify any downward trends so budgets can be adjusted accordingly. There is already some pressure coming through on garage income as units are being surrendered.

Inflationary Assumptions

1. The table below shows the inflationary allowances used within the MTFP, followed by the key factors and risks from each are:-

	2023/24	2024/25	2025/26	2026/27	2027/28
Pay	5.700%	3.700%	2.700%	2.700%	2.700%
Contract	16.00%	5.00%	2.50%	3.00%	3.00%
Income	16.00%	5.00%	2.50%	3.00%	3.00%
CPI (consumer Price Index)	15.00%	4.00%	1.50%	2.00%	2.00%
RPI (Retail Price Index)	16.00%	5.00%	2.50%	3.00%	3.00%
Utilities	26.00%	15.00%	12.50%	13.00%	13.00%
Benefits	1.00%	1.00%	1.00%	1.00%	1.00%
CT increase	2.81%	2.74%	2.67%	2.60%	2.53%
Pension	4.00%	4.00%	4.00%	4.00%	4.00%
Bank of England Rate	2.50%	1.80%	1.75%	1.75%	1.75%
ST Borrowing	2.65%	1.95%	1.90%	1.90%	1.90%
LT Borrowing	3.30%	3.30%	3.30%	3.30%	3.30%
ST Investment	2.45%	1.75%	1.70%	1.70%	1.70%
LT Investment	5.00%	4.30%	4.25%	4.25%	4.25%
Company lending	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Key factors and risks

2. **Pay** – the Council was awarded a 2% cost of living increase for 2022/23 which was broadly in line with the forecast within the previous MTFP. Pay is the largest expense to the Council and is forecast to be in the region of £19.7m for 2023/24 forecasting a 5% increase.

3. As the largest expense to the Council this is also the largest risk in terms of inflationary pressure. There is always a need to balance the pay award with market factors, including ensuring we are competitive in attracting and retaining staff. Consideration also needs to be given to the general labour market which is tight at the moment and the MTFP to ensure that any pay awards are affordable and sustainable.

4. To put the pay award risk into context, a 1% movement upwards in the pay award would add an additional £197,000 to the annual pay bill, equivalent to five Officers at SCP30 grade including on-costs.

5. **Contractual inflation** – this is generally follows CPI with a 1% wedge to allow for additional margins on shorter term contracts (effectively RPI). Contractual inflation does not inflate budgets for all small contracts where increase have been largely managed through finding efficiencies in service budgets in recent years, this approach is continuing to reduce growth and challenge budgets. However for significant contracts, such as the waste collection contract a contractual inflation allowance is applied.

6. For 2023/24 growth of circa £900,000 has been allowed for contractual inflation of which £636,000 is for the refuse collection contract. The allowance of 16% growth is not a direct forecast for 2023/24, but increased to allow for catch between the previous assumptions allowed for in the 2022/23 MTFP and actual rates that developed due to the rapidly changing economic conditions. This approach has also been used for Income, CPI, RPI and utility allowances.

7. **Borrowing** – The short term and long term interest were forecast in September and following recent fiscal events, will need revising upwards as the draft budget is developed.

8. Government Policies such as the Energy Support Scheme and the min-budget, although this is now likely to be reversed (in part), it is anticipated that inflation and subsequently interest rates are expected to rise more severely and then take longer to drop depending on the severity of any possible recession.

9. Commentary on inflation and interest rates are shown at **Appendix B**.