Agenda Item No:	
Report To:	Cabinet
Date of Meeting:	26 October 2023
Report Title:	Medium Term Financial Plan (MTFP) 2024-2029
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Job Title:	Service Lead for Finance
Portfolio Holder:	Cllr. Noel Ovenden
Portfolio Holder for:	Prosperity and Resource

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Summary:

This MTFP forecast has been reviewed and is supported by the MTFP Task Group which included Shadow Portfolio Holders.

The MTFP forecast highlights a £8.9m deficit over the period of the plan, with a deficit of £854,000 in 2024/25. The plan in placed under significant pressure from 2026/27 with the impact of a Business Rates baseline reset being modelled.

To support the budget gap the task group recommend to Cabinet that reserves are earmarked to balance the budget, while saving proposals of £1.5m are developed to balance the budget over the medium term.

The task group recommend that the Council should increase Council Tax by the amount permitted under current capping regulations. This is currently 2.99% or £5.46 per annum, and this rate is modelled within the MTFP. Should any further increase be permitted if capping regulations change, this should be strongly considered.

The Draft Budget is built using the assumptions in the MTFP and the Draft Budget will be reported to Cabinet in November 2023.

Key Decision:	Yes
Significantly Affected Wards:	All
Recommendations:	**The Cabinet is recommended to:-**

I. **Agree the Recommendations of the MTFP Task Group.**

II. **Note the forecast and accept the underlying assumptions and risks.**

III. Support Management, in conjunction with members (including the continuation of the MTFP Task Group) in developing a sound and robust schedule of savings to bridge the funding deficit highlighted within this report.

IV. Note the reserve position and support the proposed use of reserves to fund the 2024/25 budget deficit.

V. 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.

VI. Receive reports on MTFP risk as part of the regular budget monitoring reporting.

VII. Note the Chief Finance Officers advice.

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 2024-2029, 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 Principal Solicitor for Property and Projects on 16/10/2023*	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 2024 Cabinet. This report forms the basis of the Budget Setting process with the Draft Budget for 2024/24 to be presented to Cabinet in November 2023.
Data Protection Impact Assessment:	N/A
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, notably Business Rates

- 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:	N/a
Other Material Implications:	None
Exempt from Publication:	**No**
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Agenda Item No.

Report Title: The Medium Term Financial Plan 2024-2029

Executive Summary

1. Following support from Cabinet, a cross party Medium Term Financial Plan (MTFP) task group was formed and sat for three sessions with senior finance officers. The sessions covered and debated various assumptions within the MTFP, and made and number of changes and recommendations accordingly. More detail of the work undertaken by the task group and recommendations/changes made are shown at **Appendix A**. Two of the most pertinent recommendation coming from the task groups were that:-

    a. the Council should dampen the impact of a Business Rates Baseline Reset until more certainty is provided by Government.

    b. the Council should increase Council Tax by the maximum currently permitted by Government, without triggering a local referendum. Currently 2.99% (£5.46 per annum for an Average Band D Property).

2. The work of the task group as detailed in **Appendix A**, with the resulting forecast highlighting a pressure of £8.9m for the period 2024 to 2029 which is largely attributable to high interest rates, inflation and risks to Government Funding, primarily the business rates baseline reset in the latter three years. Further details are provided within the MTFP forecast section of this report.

3. To manage the pressure within the MTFP, the task group recommends that £1.5m of saving proposals should be developed to manage the budget deficit over the medium to long term. While saving proposals are being developed and realised, it was acknowledged that reserves could be used to cover immediate deficits identified through the budget setting process. However, this is not an acceptable long term strategy.

4. The Portfolio Holder for Prosperity and Resource, and Officers welcomed and appreciated the challenge and constructive debate in bringing forward this MTFP position and thank members of the Task Group accordingly.

Introduction and Background

5. At the meeting of the Cabinet in July 2023, the quarterly financial monitoring report recommended that Cabinet 'Support the proposal to create a working group to develop the Medium Term Financial Plan including shadow portfolio holders'.

6. The forecast has been developed on current service activities, current understanding of future levels of government funding and key assumptions supported by data from government and professional advisory sources. In 2023/24 the government delivered a two year financial settlement that provides a further degree of accuracy over key funding assumptions used within 2024/25 of the MTFP.

7. There is still uncertainty over two significant sources of government funding:

a. the future form of the retained business rates system featuring a full or partial rest.

b. the future of new homes bonus with a decision due to be made ahead of the government's 2024/25 local government finance settlement.

8. The current administration has progressed savings for 2023/24 as identified by the previous administration, although the new administration will need to take further measures to address the budget shortfall. There will however be a need to continue to focus on the core statutory responsibilities of the Council, and re-focus the ambition within a new Corporate Plan that will be developed by the new administration over the next year.

9. As with previous years, and with timing of reporting, any changes arising from the local government finance settlement which is normally announced in December will be reported in the Final Budget report.

10. 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 Draft Budget, before the Final Budget report is approved by Council in early 2024.

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

Council Priorities

12. In 2021 the Council adopted its Corporate Plan 2022-2024 which introduced "The Ashford Ambition" and provides strategic direction for the future and is the catalyst for delivering corporate priorities. Although the administration of the Council changed following the May elections, the new administration remains supportive of the principles of the original plan while it takes time to reflect and re-focus new priorities moving forward.

13. The three priority themes that are detailed below, the anticipated delivery outcomes are expanded upon at **Appendix B**:-

- Green Pioneer
- Caring Ashford
- Targeted Growth

Context

14. The areas below are covered in more detail in the Policy, Economic Outlook and Risk report at **Appendix D.** In developing our medium 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. Interest rates of around 5.25% or above for longer, before coming back down over the medium term.

c. Ongoing geo-political tensions including the war in Ukraine.

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. National elections in 2024, what will this mean for local government funding and where will new government priorities be focused. Unlikely that there will be any additional funding to Local Councils despite the ever increasing number of actual, and anticipated S114 notices (Council Bankruptcy).

g. 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, we saw a two year settlement in 2023/24, although with the upcoming election it is unlikely there will be an announcement for 2025/26.

h. New Home Bonus – a consultation to replace the scheme was undertaken in July 2021. Government have indicated the future of the scheme will be announced before the Local Government Finance Settlement in December.

i. There remains continued uncertainty over Ashford Port Health service and what coverage and resource will be needed.

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

15. 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 economic 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.

Key Risks in for Forecast

16. The table below considers the key risks within the MTFP and inform what course of action would be most appropriate. To help summarise the strategies each risk will be referenced using one of the four 'T's, **Treat** (how do we manage the risk to an acceptable level), **Terminate** (can we stop doing the activity), **Tolerate** (accept the risk) and **Transfer** (transfer risk to another party, usually through insurance).

Ref.	Risk	Action	Risk Strategy
1	**Business Rate Baseline Reset** – Significant loss of income to the Council as modelled at **Appendix C**.	Treat / Tolerate	Ultimately given that this is indicated Government legislation, despite making our case in appropriate consultations etc that should be forthcoming the Council will ultimately need to tolerate this risk. However, considering the severity on the possible impact on the MTFP, and the

			uncertainty whether this may happen and the timing. The MTFP task group have decided to partially treat this risk by increasing the damping figure within the financial model. While this strategy does not fully treat the underlying risk, it does stop the Council needing to make unnecessary cuts in the medium term based on limited certainty and potentially changing government policy.
2	**Pay Award increase above 5% –** Negative Financial impact on MTFP.	Treat	Staffing costs are the largest area of spend for the Council with a forecasted budget of £20.5m for 2024/25, and increase of £1.2m allowing for a 5.7% increase (5% pay award and 0.7% for increments) A 1% increase in staffing costs adds around £200,000 to the 2024/25 budget, and £1m across the life of the MTFP. Therefore the Council needs to manage pay award negotiations sensitively. Any increase above this amount would need to be funded from further savings across the Council.
3	**Interest Rate Risk –** Interest rates are higher than those allowed for in the MTFP.	Treat	It is anticipated that interest rates are near the top of the cycle although there may be a need for future rises if inflation remains high. The MTFP has allowed for 5.75% through 2024/25 and given the freeze at the September BOE meeting this rate this feels appropriate to manage the current rates position, and a further rise of 0.25%.
4	**Inflation** – Refuse Collection Contract	Tolerate	While inflation adds significant pressure to the budget overall across many different areas, it is really noticeable in the Councils largest contract, Refuse Collection. The Council has allowed for the new contract costs in the MTFP, however the Council will need rebase this using actual figures which includes a TUPE true up exercise with the new contractor. Once the 2024/25 full contract costs is known it will be reported through budget monitoring reports accordingly.

5	**Savings** – If savings included within the MTFP are not delivered, or new savings not brought forward to balance the MTFP, there will be financial risk to the Council.	Treat / Transfer	This risk can be managed by ensuring we have the appropriate reporting and monitoring of savings proposals currently within the MTFP. With the exception of the proposal to move to International House, most of the saving have already been delivered or being finalised. If the move to International House is not approved, then the savings incorporated into the MTFP and additional costs for updating the Civic Centre will need to be added into the MTFP, increasing the budget deficit. Regarding new savings requirements, this will be challenging and the MTFP Task Group will be retained to help identify and review future proposals to ensure further savings can be delivered. In the interim the risk can be transferred by using reserves but this is not a long term viable solution.
6	**Government Policy** – Changes to financial and regulatory responsibilities	Tolerate / Treat	The Council is active in consultations and frequently request support through new burdens payments, although we are not always compensated for additional responsibilities.
7	**Homelessness** – Financial pressure from increasing demand on services	Treat / Tolerate	Homelessness is a statutory responsibility for the Council and has seen continued increases in demand in recent years. While we need to tolerate the increase demand to an extent, the Council can challenge representations to ensure the appropriateness of applications to help control numbers. Financially, the budget has been increased by £500,000 for 2024/25, before reducing that amount over the remainder of the plan. The Council is looking to procure its own TA accommodation to reduce costs and this is another avenue being actively explored to control this growing risk.
8	**Ashford Port Health** – Financial risk if the project does not proceed, and	Treat / Tolerate	The Council is still resourced to deliver Ashford Port Health Services at Central Governments cost. This enables the Council to spread its wider corporate costs through legitimate recharges to the port health function. If the Port does not

	financial risk if it does.		progress then theses recharges would need to be reabsorbed back into the general fund and HRA (Housing Revenue Account) increasing the overall cost to the organisation. Equally once the operation commences there could be a risk that the income stream is not sufficient to cover costs of the service, this is largely treatable as the Council sets the charges at a recovery rate. To help support this risk there is also a port health earmarked reserve.
9	**Stodmarsh –** financial impact relating to suppressed growth in Tax Base	Tolerate	The Council was seeking a more borough wide option, however the issue is gathering support within Government for a legislative fix. With a recent proposal to amend the legislation being defeated this has radically changed the risk profile of investing heavily in a council led scheme. It is widely expected that government will try again to unlock developments across the country that are captured by nutrient neutrality issues. In relation to Ashford there is a risk that the restrictions placed will cause a slump in property completions coming forward that will impact new Council Tax Growth and planning fee income. In terms of treating this risk the Council will continue to lobby government to deliver a solution.
10	**Government Funding –** further delays to funding reform and freezing of core spending power	Tolerate	Business rates has been addressed separately. There is ongoing reform to government funding that has in recent years led to real terms cuts in the core spending power of the council. There is a risk that core spending power increases will remain frozen in 'Cash Terms' which represent real terms cuts to the Council. The Council will need to respond to consultations and keep abreast of government developments. One of the more imminent risk is the uncertain future of New Homes Bonus which has previously

			provided a good income stream to the Council.
11	**Commercial income –** Commercial project do not come forward as planned or are cancelled	Treat	To support cuts to Government funding and support regeneration, and the private sector rental market within the Borough, the Council has a number of subsidiary companies that provide revenue streams to the Council. The MTFP is reliant on the continued support of these companies, especially in times of economic uncertainty. However, the risk surrounding the companies need to be fully understood and benefits fully considered. If the Council changed direction on supporting these ventures then there would be an adverse impact on the MTFP.

17. It is recommended that that these risks are updated and reported and as part of routine budget monitoring reports presented to Cabinet.

Key Assumptions and their impact

Inflationary increases and Sensitivity analysis

18. The MTFP uses the 2023/24 approved budget as a baseline and then incrementally increases that base to makes allowances for future inflationary factors. Some inflationary factors impact the financial model more than others, the assumptions and the impact of a 1% movement in the 2024/25 figure are shown below:-

	2024/25	Sensitivity of 1% £'000	2025/26	2026/27	2027/28	2028/29	Source
Inflation							
Pay	5.70%	202	3.20%	2.70%	2.70%	2.70%	0.7% for Increments
Contract	3.70%	78	2.63%	2.60%	3.00%	3.00%	CPI + 1%
Income	3.70%	23	2.63%	2.60%	3.00%	3.00%	CPI + 1%
CPI (consumer Price Index)	2.70%	3	1.63%	1.60%	2.00%	2.00%	BOE MPC Report
RPI (Retail Price Index)	3.70%	4	2.63%	2.60%	3.00%	3.00%	CPI + 1% wedge
Utilities	3.70%	4	2.63%	2.60%	3.00%	3.00%	Based on RPI
CT increase	2.99%	91	2.99%	2.99%	2.99%	2.99%	GVMNT Policy
Bank of England Rate	5.50%	27	4.50%	3.75%	3.25%	3.00%	Arlingclose Forecast
ST Borrowing	5.75%	901	4.75%	4.00%	3.50%	3.25%	BOE Base + 0.25%
LT Borrowing	5.22%	0	5.19%	5.18%	5.18%	5.17%	UK Fwd curve + 0.8%
ST Investment	5.48%	20	4.48%	3.73%	3.23%	2.98%	BOE less 0.03%
LT Investment	5.50%	290	4.50%	4.50%	4.50%	4.50%	Portfolio Ave at par

19. As can be seen from the table above, a 1% change has a significant impact on the pay award, contracts, Council Tax and borrowing and investing (ST Borrowing and LT Investment) lines. While many of the assumptions forecast are beyond the control of the Council, pay is within the control of the Council

and while noting the current economic climate, any deviation from this estimate will increase or decrease the overall saving requirement.

Other significant pressures

20. In addition to inflationary increases, the Corporate Director and Service Lead for Finance meets with Assistant Directors and Heads for Service to identify any significant pressures coming forward, or opportunities for savings/additional income that need to be included within the model. The previous years, and current budget monitoring positions are also considered and adjustments made where appropriate.

21. The significant 'other changes' made within the model include £500,000 for Temporary Accommodation in 2024/25 to support ongoing pressures in homelessness, and £75,000 for increased utility fees in corporate car parks. There was also a number of other changes to realise the savings that were delivered as part of the 2023/24 budget savings target which have been reported in budget monitoring reports, including the senior management restructure, parking fee increase, property and parking services restructures, and the proposal to move to International House, noting this is still subject to Council approval.

Business Rates Assumption

22. A full reset in the baseline would result in the Council losing 50% of the growth it retains from when the baseline was set in 2013 in addition to compensation for under indexation of past years rates. A table showing the implication of the Business Rates baseline reset using data provided by Pixel our advisors is shown at **Appendix C**.

23. The political and economic impact of the proposed reset were discussed at the MTFP Task Group meeting and it was felt that the full baseline reset as indicated would have such a significant impact on the sector that it would not be plausible. In the model provided by Pixel there is a damping figure which wold be applied to transition authorities to the new base line.

24. With the level of damping within the original model the Council would still move from a budget of £10.1m in 2025/26 to 4.617m in 2028/29, a drop of £5.4m. The task group, while accepting that there will be some form of lost income to the Council as a result of the baseline reset, have made provision for dampening of £3.5m per annum post business rate baseline reset.

25. The underlying rationale for this decision was that the economic impact on District Councils would be too severe a cut, and it would result in Ashford needing to make even more cuts, based on assumptions that are still not confirmed by Government. It was acknowledged that once government policy was confirmed, then appropriate revisions to forecast would need to be made and the consequences managed accordingly. This is a significant Government Policy risk and will be noted as a risk to delivering the MTFP accordingly. This area will need close monitoring and updates will be provided to members.

Council Tax Assumption

26. It is anticipated that (despite lobbying) the rules around Council Tax increases will not change for 2024/25 therefore allowing the Council to raise Council Tax by 2.99% 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 £5.46 increase for 2024/25, taking the average Band D property to £187.96.

27. The Council tax increase will add, subject to final tax base numbers approximately £450,000 to the Councils budget, and a 1% movement would cost the Council £90,000 per annum. 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. By limiting Council Tax increases you are effectively telling Government we do not need the funding.

28. The Local Government Association and Councils indicated to government after the last financial settlement that the £5 limit should have also increased to £10 to try and close the gap between high and low precepting authorities. This was discussed as part of the MTFP task group and it was recommended that should government permit any further increases in Council Tax, then the Council should strongly consider increasing the Council Tax to the maximum permitted, without triggering a local referendum. **This would be subject to Council decision.**

MTFP Forecast

29. The MTFP for the period 2024/25 to 2028/29 is currently forecasting a £8.9m deficit over the period with £854,000 for within 2024/25.

30. The Council is faced with a challenging economic and political outlook nationally, and careful, but robust action will need to be taken to close the budget gap. This will require difficult decisions to be made as we review our service provision, expenditure and priorities within the new Administrations future corporate plan.

31. Following completion of the Draft Budget, It is recommended, and supported by the MTFP Task Group that any residual budget gap identified be met from earmarked reserves, This will enable Management in conjunction with Portfolio Holders and Members of the MTFP Task Group to make decisions on what savings can, and need to be taken forward.

32. 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.

33. The Table below presents the MTFP position for the period 2024 to 2029.

General Fund Revenue Forecast 2024/25 to 2028/29

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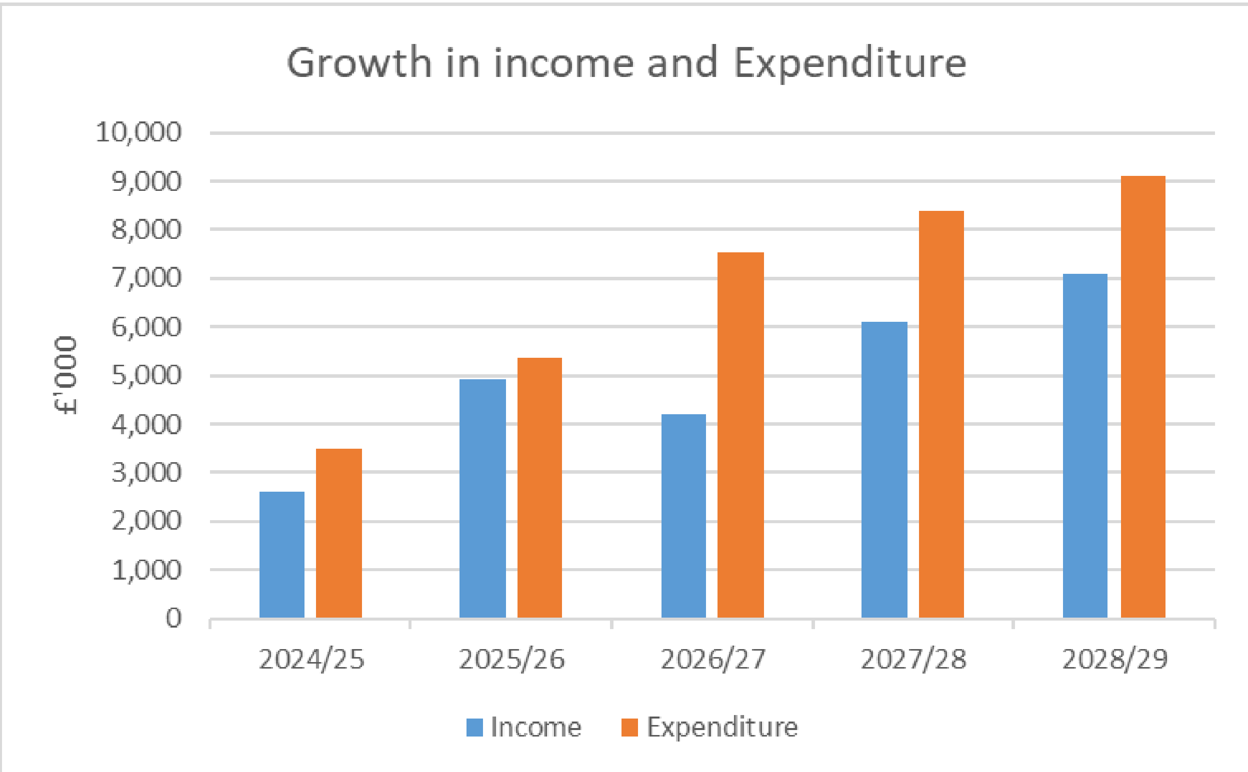
	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
Government Grant	(1,019)	(1,083)	(503)	(443)	(377)
Retained Business Rates	(9,590)	(10,100)	(7,385)	(7,739)	(8,117)
New Homes Bonus (100% transferred to Improvement & Project Fund)	(1,000)	(500)	(500)	(500)	(500)
Government Funding	(11,609)	(11,683)	(8,388)	(8,682)	(8,994)
Council Tax	(9,376)	(9,850)	(10,347)	(10,869)	(11,418)
Total Income Receipts (Including Specific Grants)	(50,964)	(51,479)	(51,654)	(51,798)	(51,943)
Base Budget Gross Expenditure	68,132	70,447	72,005	72,991	74,133
Net Interest and MRP costs	5,412	6,433	7,065	6,934	6,484
Company and Commercial income (excl. debt)	(2,191)	(3,442)	(5,346)	(6,278)	(6,247)
Reserve Transfers	1,450	0	0	0	0
BUDGET GAP	**854**	**426**	**3,335**	**2,298**	**2,015**
Cumulative GAP	**854**	**1,280**	**4,615**	**6,913**	**8,928**

34. To get a better understanding and therefore address the long term pressures being felt by the Council we need to explore the key drivers for expenditure and Income.

35. The graph below shows the movement for income and expenditure over the life of the MTFP. As can be seen from the graph, expenditure growth is consistently outstripping income growth and this is exacerbated in 2026/27 when business rates is set to reduce following the proposed baseline reset.



36. The primary cause for this differential is simply that inflationary increases in spend (double digit inflation), contracts, repairs and maintenance and salaries (5%), are outstripping rises in income, notably Council Tax which was capped at 2.99% last year, and persistent 'real' terms reductions in Government funding that have eroded the income base of the Council.

37. Analysis of the income and expenditure growth highlighted that the biggest pressure over the next 5 years is employee costs which is forecast to cost an additional £19.8m based on the current assumptions and has inherent risk as the Council enters into pay negotiations.

38. Given the inflationary pressure coming through Employee costs, this may need to be an area for consideration to reduce the costs base of the Council, acknowledging that several services such as Property, Parking and Senior Management have already done this as part of the 2023/24 budget saving target.

39. The biggest income growth across the period relates to commercial income, again this is referenced in the risk section of this report. The acceleration of the income stream for commercial income larger relates to the Council subsidiary A Better Choice for Property Ltd. and future interest from loan facilities. This growth in income is largely from 2026/27 onwards as the Developments proposed are restricted due to nutrient neutrality and Stodmarsh. Delays resulting from Stodmarsh, additional holding costs and inflationary pressures on construction costs are diminishing the viability of the proposed schemes and this present a risk to future lending requirements.

Managing the Budget Gap

40. To bridge the Gap, it has been recommended by the MTFP Task Group and supported by the Section 151 Officer that further savings of £1.5m per annum are sought to reduce the forecast deficit. It is anticipated that £1m be used to manage the immediate operational deficits with the remaining £500,000 providing some movement to manage in year pressures, or replenishing reserves.

41. Savings proposals will need to be developed and careful consideration given to the impact on services and residents. It will be challenging to find further savings with the 'easy wins' having been taken in previous saving rounds. To deliver this new savings requirement, difficult decisions will need to be taken that will change service delivery/provision, and may not be universally supported, but a 'salami slicing' approach would not be deliverable, or produce the level of savings necessary. To support this process it is recommended that the MTFP task group (containing shadow portfolio holders) be retained to consider future savings proposal as they are developed.

<u>Developing Future Income Streams</u>

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

43. The Medium Term Financial Plan includes income from projects that have been confirmed, such as investment in the Property Company, although as mention above given the current economic uncertainty the viability of projects will need to be reassessed.

44. Maximise statutory income, although not likely to generate significant amounts of income, an exercise is proposed to confirm that the council is fully recovering costs for providing statutory services, such as licensing where this is the basis on which fees and charges are set.

Reserves Forecast

45. 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. The intention of the review will be to earmark a minimum of £9m to cover the risk within the current MTFP forecast.

46. The table below shows reserve levels as at 31 March 2022 and the forecasted year end position to 31 March 2026 based on information currently available.

47. As can be seen from the table below, useable reserves have been dropping since March 2022 and are forecast to do so through the remainder of the MTFP. The table **does not** allow for any reserve funding to cover any emerging budget gap for 2024/25, and given the likely requirement for this support the reserve position is expected to diminish further. The forecast reserve position will be completed and included within the Draft Budget Report.

Earmarked general fund reserves	Balance at 31 March 2022	Balance at 31 March 2023	Balance at 31 March 2024	Balance at 31 March 2025	Balance at 31 March 2026
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
General fund general reserves	(2,602)	(2,602)	(2,847)	(2,847)	(2,847)
Operational reserves					
Recovery Project Reserve (now including Victoria Park)	(1,093)	(760)	(699)	(699)	(699)
Improvement Delivery Fund	(3,000)	(4,799)	(4,799)	(4,799)	(4,799)
Fund Future Expenditure (Risk, Legislation, Transformation)	(6,104)	(7,047)	(6,208)	(5,773)	(5,473)
Economic Growth and Risk Fund	(8,346)	(6,218)	(3,201)	(3,201)	(3,201)
Climate Change Delivery Fund	(2,000)	(895)	(805)	(805)	(5)
Provide for Maintenance of Assets	(4,932)	(3,862)	(4,393)	(4,393)	(4,393)
Useable for operational purposes	**(25,475)**	**(23,581)**	**(20,104)**	**(19,669)**	**(18,569)**
Required by Statute Reserves and other ring fenced amounts	(11,871)	(8,371)	(8,574)	(8,574)	(8,574)
Developer contributions	(7,220)	(8,422)	(8,422)	(8,422)	(8,422)
Ringfenced Reserves	**(19,091)**	**(16,793)**	**(16,996)**	**(16,996)**	**(16,996)**
Total Useable Reserves	**(47,168)**	**(42,976)**	**(39,948)**	**(39,513)**	**(38,413)**

48. 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 £2.8m.

49. The reserves are forecasted to drop by just over £3.2m during 2023/24 due to a number of large items being earmarked from reserves including:-

- £1.4m to previously agreed to balance the 2023/24 budget
- £0.45m to fund 2023/24 in year deficit
- £0.265m Local Plan Costs

- £0.69m for continued support for Tenterden Leisure Centre
- £0.24m Transfer from Economic Risk Reserve to General Reserve for 15% provision.

50. 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.

51. 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.

52. If savings do not come forward and the assumptions in the MTFP are correct, then reserves would drop below £10m by the end of March 2026. 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.

53. As part of the review of reserves, resetting the corporate plan, and the advice within this report 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 projects.

    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’.

54. Projects outside of (a) and (b) will need to be considered 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.

CFO advice on Budget Robustness

55. The Local Government Act 2003 (Section 25) requires that when a local authority is agreeing its annual budget and precept, the Chief Finance Officer must report to it on the following matters: the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.

56. This medium term financial plan report represents the first step in setting the annual budget and therefore this report will include some preliminary advice in that context that will build with each report presented to cabinet.

57. Whilst this report is a forecast, it is also a risk assessment of the budget and financial plan and needs to be read in that light. The advice in risk included reflects my own views on the budget risks facing the Council, and the key area of uncertainty is the lack of clarity from government over future plans for Local Authority Finances.

58. This report highlights a number of reviews that have been delayed by government until after the next election. Whilst each review will affect the Council, it is clear that as things stand the amount of resources that central government has available for local government, does not equal the cost pressures that the sector faces and therefore any settlement will be tight for local authorities.

59. There have been some notable failures in the sector with headline grabbing causes, the pressures of managing Adult & Childrens Social Care, Homelessness, and years of austerity have left the sector extremely fragile. Any Government proposals to change the redistribution of funding between authorities (e.g. Business Rates Reset) without some way of either growing other resources (e.g. Council Tax) or enabling a significant reduction of costs will push those authorities that lose resources towards S114 territory**. I am comfortable this authority is not in that territory, and through the development of this plan and the development of the consequential strategies to reduce costs we can remain outside of this risk.**

60. This report shows that this authority has adequate levels of reserves to manage the issues over the term of the plan. However it would not be prudent to rely on reserves to manage budget pressures and savings will need to be developed to address the underlying budget gap.

61. In addition to the risk in business rates, the gap is being driven by inflationary pressures on costs outstripping the level of additional resources that can be generated from funding streams and the report has recommended that we seek to deliver savings of £1.5m per annum. This will be necessary to ensure that there is prudent stewardship of the Councils budget going forwards.

62. Therefore I urge members to note this advice and support the strategy outlined in this report.

Equalities Impact Assessment

63. This will be completed as part of the final budget report.

Consultation Planned or Undertaken

64. Consultation started in 2024 with the introduction of the MTFP Task Group which sought opinions from Shadow Portfolio Holders (members of the opposition administration).as reported at Appendix A.

65. The draft budget that will be presented to Cabinet in November and will be used for public consultation and be presented for internal scrutiny by the Overview and Scrutiny Budget Task Group.

66. In relation to the public consultation, this will be developed this year to try and encourage more feedback on where people feel it is most appropriate for the council to spend its resources.

67. While the result would not be in time to significantly influence the 2024/25 budget, it will be useful to help inform future budgets.

Next Steps in Process

68. The Draft Budget is prepared on the basis/and principles of the Medium Term Financial Plan and is presented to Cabinet in November. The Draft Budget will be used for public consultation and review by the Overview & Scrutiny Task Group.

69. The Final Budget will be presented to Cabinet in February 2024, and be recommended for approval to Council.

70. The finance team will monitor Government announcement to gather information on future funding and will report on changes arising from the Financial Settlement announced in December.

71. Management in conjunction with members and the MTFP Budget Task Group need to start drawing up plans to deliver savings to reduce the deficit.

Conclusion

72. Members are asked to consider and note this report along with assumptions made, 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.

MTFP Task Group comment

73. The MTFP Task Group welcomed this approach to collaborative working on such a significant issue for the Council.

74. The task group found that the underlying assumptions within the model were appropriate and 'should' government increase the council tax capping threshold then the opportunity should be strongly considered. This would allow the Council to move towards the average amount charged, and protect services.

75. The group debated the future of government funding, and working with Officers guided the MTFP into a position that recognised a balanced position in relation to business rates risk. This approach ensures the matter is not ignored, but equally that unnecessary cuts will not be made while uncertainty remains.

76. The group made a number of other recommendations that were universally agreed by the group.

77. Overall the group feels that the MTFP position reported is a fair representation of the Council's financial forecast, noting the inherent risks surrounding the plan and the need to make savings to balance the budget.

Leaders Comment

78. I would like to thank the members of the MTFP Task Group for their time and contributions in developing the MTFP presented within this report, and endorse the task group's views.

Contact and Email

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Medium Term Financial Plan Task Group

Work of the MTFP Task Group and Recommendations

1. The MTFP Task Group was formed of the following members;

    a. **Cllr Noel Ovenden** – Portfolio Holder for Prosperity and Resource (Independent / Leader of the Council)

    b. **Cllr Brendan Chilton** – Shadow Cabinet Member for Business, Finance and Investment (Labour)

    c. **Cllr Paul Bartlett** – Shadow Cabinet Member for Finance (Conservative)

    d. The working group was supported by the Deputy Chief Executive, Corporate Director (Maria Stevens) and Service Lead for Finance.

2. The working group met for three sessions and covered the following areas;

    a. Underlying statistical assumptions within the MTFP, including forecast interest rates, inflation forecasts, and pay awards – forward looking for the period of the MTFP.

    b. Savings already being developed that will feed into the 2024-29 MTFP.

    c. The forecast and assumptions for Business Rates and Council Tax including proposed increases and reform.

3. The task group worked through reports at each meeting and provided robust challenge during, and following each meeting. The group made various recommendations throughout the process which led to various versions of the summary being produced.

4. One of the most significant areas considered was the proposed reset of business rates and the impact it would have in the Council. The group debated the topic and it was agreed that the financial models provided were too pessimistic, and to respond to the proposals through savings would be ‘unnecessary’ until the actual position becomes clearer. This area is the biggest risk to the Council’s financial stability and would need to be covered further within the MTFP report.

Recommendations and significant changes

5. Following completion of the three sessions, the following pertinent recommendations/changes to the MTFP were proposed/actioned by the Task Group;

    a. That increased dampening to reduce the impact of a Business Rates Baseline Reset be applied to the MTFP to reduce the forecast deficit.

    b. That Government Policy (in particular changed to Business Rates) be continually monitored and reported back to Cabinet once some certainty is provided, this may not be until the middle of the next parliamentary cycle.

c. That the Council should increase Council Tax by the maximum amount permitted within Government guidelines baring the need for a local referendum. Currently this is the higher of 2.99% or £5, for ABC this currently means 2.99% - £5.46 per annum for an Average Band D Property. It also recommended that any increase in capping regulations should be strongly considered.

d. That the service contingency budget £200,000 and the historical underspend savings target of £130,000 (net £70,000 budget) be removed from the MTFP.

e. That the inflationary allowances within the MTFP are supported including the key assumptions for costs of living, 5% and interest rate forecast, accepting that there is continuing uncertainty.

f. That the costs of the garden waste collection service increases to £60 from 1 April 2024. This increase is to cover increased costs in the new refuse collection contract that becomes operational on 27 March 2024.

g. That the Council should identify further savings of £1.5m to support the MTFP over the medium long term. This is viewed as £1m to address the immediate gap and £500,000 to develop a positive budget gap to mitigate future risk and create head room to deliver strategic projects.

h. That the membership of the MTFP Task Group be retained to help identify and review savings proposal to close the MTFP deficit.

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.

Impact of Business Rates Baseline Reset

1. The table below extracts represent the original business rates risk modelled by the Councils advisors Pixel.

2. Following discussions with the MTFP Task Group the 'damping payment' figures of £2.205m in 2026/27, and £0.824m in 2027/28 were increased to £3.5m across the term of the MTFP, resulting in the revised business rates totals within the final MTFP.

	2024/25	2025/26	2026/27	2027/28	2028/29
	£'000	£'000	£'000	£'000	£'000
Retained Business Rates	(9,590)	(10,100)	(7,385)	(7,739)	(8,117)

1. This change increased the business rates forecast within the MTFP to £42.93m as opposed to £35.46m. Business rates will be referenced within the Corporate Risk register within the MTFP deliverability risk.

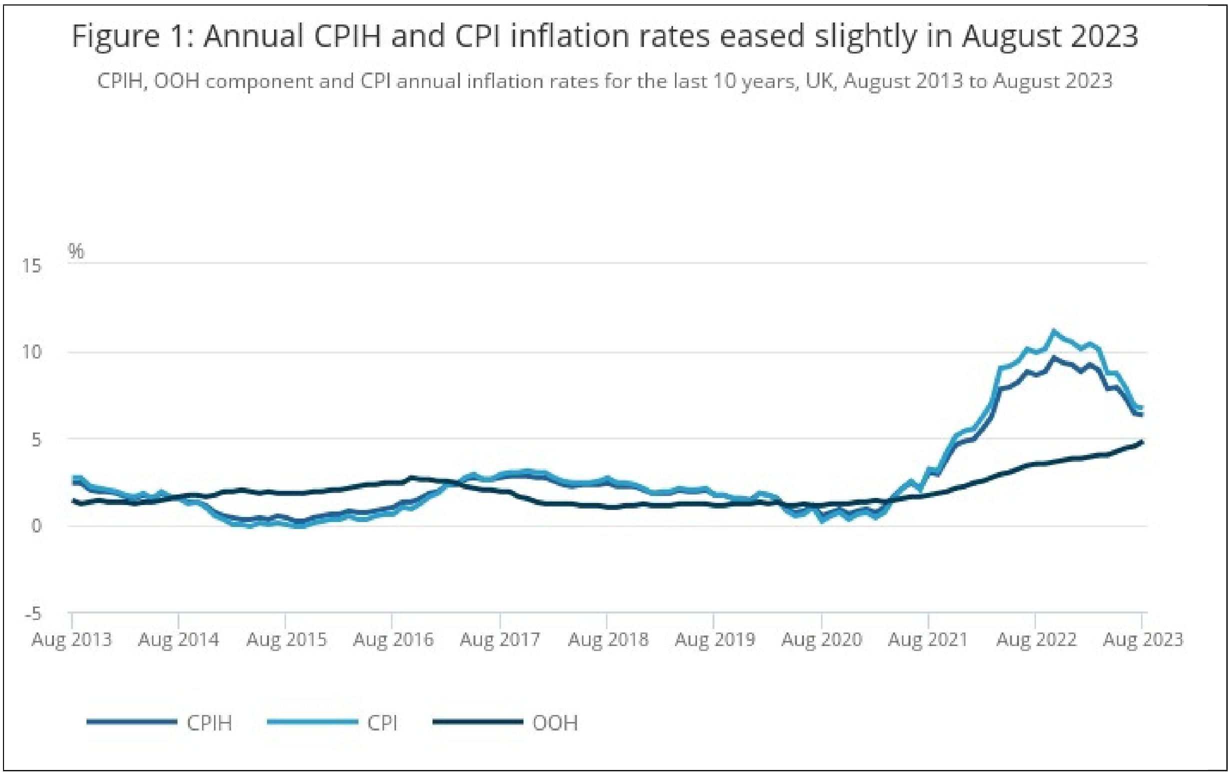
£M	2024-25	2025-26	2026-27	2027-28	2028-29
Baselines, Top-ups/ tariffs, and Settlement Funding Assessment (SFA)					
Baseline Funding Level (BFL)	**2.985**	**3.045**	**3.105**	**3.165**	**3.231**
Revenue Support Grant	0.287	0.283	0.405	0.345	0.280
Top-up/ (Tariff) adjustment	0.000	0.000	0.000	0.000	0.000
Negative SFA adjustment	0.000	0.000			
Settlement Funding Assessment	**3.272**	**3.328**	**3.510**	**3.510**	**3.510**
Business Rate Baseline	**19.198**	**19.604**	**26.557**	**27.069**	**27.632**
Top-up (+) or tariff (-)	**-16.213**	**-16.559**	**-23.452**	**-23.904**	**-24.401**
	2.985	**3.045**	**3.105**	**3.165**	**3.231**
Business Rate Retention System					
Tier split	*40%*	*40%*	*40%*	*40%*	*40%*
Levy rate	*50.0%*	*50.0%*	*50.0%*	*50.0%*	*50.0%*
Baseline Funding Level	*2.985*	*3.045*	*3.105*	*3.165*	*3.231*
Non-Domestic Rating Income + Section 31 grants	25.534	26.433	27.339	28.304	29.347
S.31 - cap compensation for adj Non-Domestic Rating In	5.208	5.432			
S.31 - cap compensation for s31 grants (for reliefs)	0.877	0.881			
S.31 - Multiplier Cap (Adj to Tariff or Top-up)	-3.866	-3.969			
Compensation for under-indexing the multiplier	2.219	2.345	0.000	0.000	0.000
Retained Rates	**27.752**	**28.778**	**27.339**	**28.304**	**29.347**
Top-up/ (Tariff)	-16.213	-16.559	-23.452	-23.904	-24.401
Non-Domestic Rating Income + Section 31 grants	25.534	26.433	27.339	28.304	29.347
Top-up/ (Tariff)	-16.213	-16.559	-23.452	-23.904	-24.401
Baseline Funding Level	-2.985	-3.045	-3.105	-3.165	-3.231
Growth Above Baseline (then 50% taken)	6.336	6.829	0.782	1.235	1.715
Levy	-3.168	-3.414	-0.391	-0.617	-0.858
Renewables	0.064	0.064	0.064	0.064	0.064
Cost of Collection	0.204	0.208	0.208	0.208	0.208
TOTAL BUSINESS RATE INCOME	**8.639**	**9.076**	**3.768**	**4.054**	**4.360**
Damping payments			2.205	0.824	0.000
TOTAL BUSINESS RATE INCOME + DAMPING	8.639	9.076	5.973	4.878	4.360
Pooling Benefit 30% of Levy	0.950	1.024	0.117	0.185	0.257
Amount in budget	9.590	10.100	6.090	5.063	4.617

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. As can be seen from the graph below, inflation remains high which is directly impacting the costs the Council is paying for outsourced services, such as the waste collection contract.
3. The high inflation and responsive rise in interest rates has also led to a cost of living crises that is impacting residents, and increasing demand on Council Services.
4. One of the key impacts of high inflation is the erosion of one of the main income streams for the Council, Council Tax. The government increased the cap to 2.99% in 2023/24, but with CPI at 9% in April 2022, and 10.1% in April 2023, this is significant reduction in real terms funding. Equally with the exception of business rates and under indexing compensation, core government grant funding is not increasing in line with inflation.
5. The chart below represents the annual movement in CPI (Consumer Prices Index) since 2013. Inflation is expected to fall back to target towards the end of 2024, but this has risk with fuel prices rising again, in the meantime continued high rates diminishes Council Tax receipts in real terms.



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

6. High inflation, as expected is also bringing other economic challenges to the Council. The cost of capital works has increased considerably, and while starting to level out, 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.

7. 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.

8. 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.

9. With the potential of a recession, there is also likely to be reduced demand for Council discretionary services, such as parking, and environmental services such as garden waste bins and bulky refuse collections.

10. Businesses around the town will also start to struggle as consumers look to cut back, especially within the Food and Beverage industry. 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.

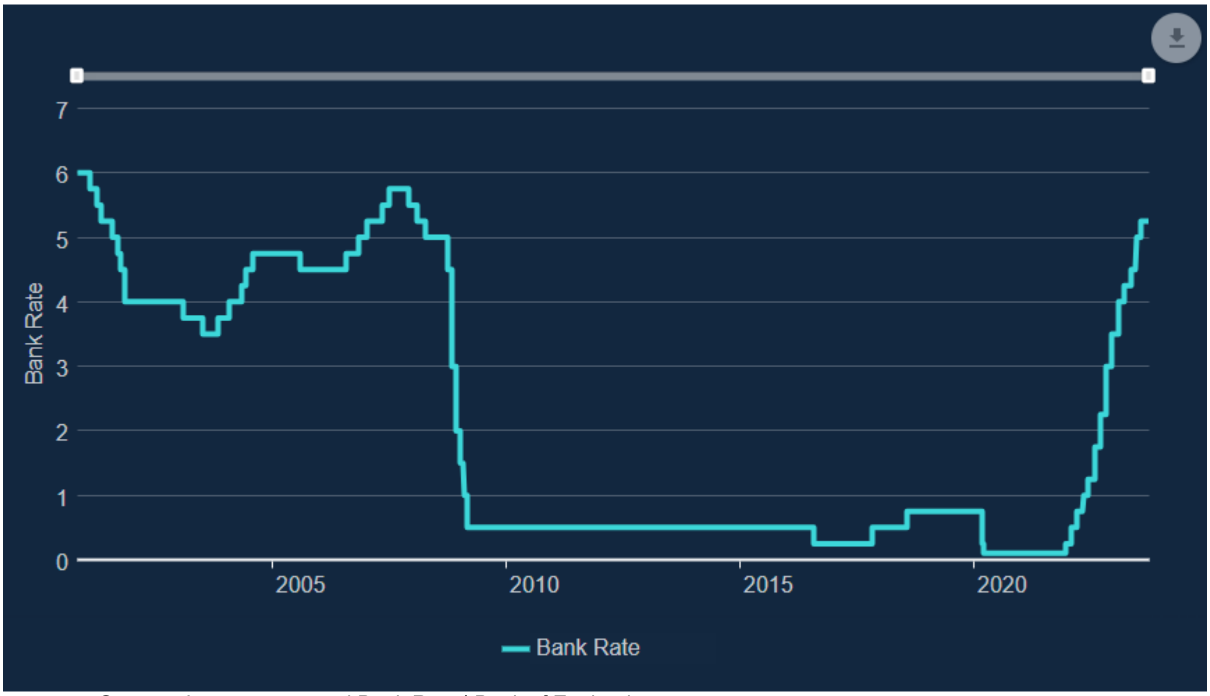
11. Overall rising inflation is non-discriminatory and will impact all businesses and residents within the Borough, including the Council, and we will all be tasked with tough challenges to do what is required, but against the backdrop of what is affordable.

Interest rates

12. The council has a significant short term borrowing requirement which it borrows from other local authorities. The is a direction correlation between the Bank of England base rate and what we pay, and as can be seen from the Interest rate graph, rates have risen significantly in the past 12 months, with the first freeze in rate coming in September.

13. The higher interest rate has been factored into the MTFP with assumption that rates will start to fall for 2025/26. Following the September freeze, it is felt that the interest rates in the MTFP are appropriate at this time.

14. The Council will continue to monitor interest rate forecasts and note the risk of further rises if inflation remains high and needs further intervention to reduce prices. 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.



Source - Interest rates and Bank Rate | Bank of England

15. It is anticipated within the MTFP that the Councils short term borrowing requirement will range between £113m and 135m in 2024/25.

16. 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 previous years.

17. 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.

18. One 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

19. With Government having been very much in reactive mode and now political jostling for next year's elections, there continues to be further delays to planned reforms to fair funding.

20. The constant deferral of reviewing funding reform creates uncertainty and has led to a succession of one year settlement deals, although this trend was broken last year with a two year deal to fit in with the parliamentary cycle. While this introduced some certainty for 2024/25 it still leaves many significant decisions unresolved that are adding further risk to local authority funding, as well as real term funding cuts.

21. One of the biggest delays is to the reform of Business Rates, and while this delay has been positive for Ashford as we have a high level of growth in the Borough, which means we retain a greater share of the rates collected. However, financial modelling through our advisors forecasts a significant cut in resources once a baseline reset is completed, now forecast for 2026/27. This has been a key consideration in setting the MTFP and is covered extensively within the risk section of this report.

22. 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.

23. New Homes Bonus funding in the model is continued although the amount has been reduced. Since the review in 2021 the future of the scheme has remained uncertain, although an announcement on the future of NHB is now expected before the local authority finance settlement in December.

24. 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.

25. With Parliamentary elections next year, there could be a change in national government which could impact funding to Local Authorities depending where government policy focuses.

26. Locally the Council is under a new administration and while policy documents such as a new corporate plan are still being developed, the Council will need to react and balance funding to deliver their own views on how services should be delivered moving forward.

Ashford Port Health

27. 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.

28. 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.

29. 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.

30. The current MTFP allows for the recharges of the current proposal, although 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

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

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

33. 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. Some grant funding was still available and this is being utilised in the short term through the Councils WAG (welfare Advisory Group).

34. 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 budget forecast can be adjusted accordingly.

Pay Award

35. The MTFP has made provision for a 5.7% increase in employee costs for 2024/25, 5% for cost of living increase and 0.7% for staff increments. Pay is the largest expense to the Council and is forecast to be in the region of £20.5m for 2024/25.

36. 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 and the MTFP to ensure that any pay awards are affordable and sustainable.

37. To put the pay award risk into context, a 1% movement upwards in the pay award would add an additional £202,000 to the annual pay bill, equivalent to five Officers at SCP30 grade including on-costs.