Agenda Item No:	8
Report To:	Cabinet
Date of Meeting:	28 November 2019
Report Title:	The Medium Term Financial Plan 2020-25
Report Author & Job Title:	Maria Stevens Head of Finance & IT
Portfolio Holder **Portfolio Holder for:**	Cllr. Bell Finance & IT

Summary:

This report presents the Medium Term Financial Plan, a budget forecast including underlying assumptions, covering a five year period from 2020 to 2025 for the General Fund (the Business Plan for the Housing Revenue Account reported to the Cabinet on 10 October) the Draft Budget for 2020/21 is also on this agenda.

The plan highlights the emerging pressures from cuts in Government Funding that need to be managed over the next four years. Management Team are currently working on plans to reduce the budget going forward.

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

Key Decision:	YES
Significantly Affected Wards:	All

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

I. **Note the forecast and accept the underlying assumptions**
II. **Endorse the Inflation Management Strategy**
III. **Note that 2020/21 funding will be based on current funding with spending reviews, fair funding and Business Rate changes now to be implemented from 2021/22**
IV. **Delegate authority to the Director of Finance and Economy in consultation with the Leader and Portfolio Holder for Finance and IT to agree the Council's continued participation in the Kent Business Rates pool**

Policy Overview:	In line with the Council's commitment to agree an annual budget and financially plan for the next 5 years
Financial Implications:	The Medium Term Financial Plan is built based on the current Corporate Plan 2015-2020, this ensures that financial resources are used to deliver the Council's priorities. The process has included identification of £500,000 savings from 2020/21 to ensure the Council has a balanced draft budget for next year. Further work in underway to find the gap in the Medium Term Financial Plan and this will be achieved through further income generation and transformation, including digital.
Equalities Impact Assessment	As part of the Budget Setting process presented to Cabinet in February each year.
Other Material Implications:	None
Exempt from Publication:	**NO**
Portfolio Holder's Views	To be given at the meeting
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Report Title: The Medium Term Financial Plan 2020-21

Purpose of the Report

1. This report presents the Medium Term Finance Plan that has been built based on current service activities, current levels of government funding and some reductions in business rate income which is currently under review.

2. To ensure the services continues to be delivered the Council has been developing an alternative to formula grant. These alternatives include generating income through investment in residential and commercial property. As highlighted in recent Budget Monitoring reports there has been a slowing down of take up in leases for new units. This has been modelled in the planning.

3. Members are reminded that this report covers the General Fund budget; the Council also has a Housing Revenue Account (HRA) and this has its own separate 30 year business plan and this was covered in detail in a report to 10 October Cabinet.

4. The draft budget has been prepared based on the Medium Term Financial Plan, the draft budget is to be presented at this meeting.

Background & Context

The Economy

5. The UK economy has displayed a marked slowdown in growth due to uncertainty including Brexit and now the general election.

6. Expectations of an interest rate rise have been curtailed in recent months with a weaker external environment, while the slowing UK economy will place pressure on the Monetary Policy Committee (MPC) to loosen monetary policy, and at the last meeting of the Bank of England (BOE) two members voted for an immediate cut in the base rate.

7. Inflation is currently running at 1.5%, which is below the 2% target set by the BOE. While the tight labour market risks medium term domestically driven pressure, slower global growth should reduce external pressures, although political turmoil could push up oil prices.

EU-EXIT

8. The Government have again delayed the EU Exit and it is now looking to be on 31 January 2020 following the general election on 12 December 2019. There is not a current agreed deal so the option of a no deal is still on the table.

9. The Government have been working on a number strategies should there be no deal. With the final terms of the departure of the UK from Europe yet to be settled, the Chancellor has already signalled that a further Budget may be required should this departure be made without a formal deal.

10. To ensure a smooth transition it has been agreed that EU laws will become UK law on the day of exiting the EU.

11. Ashford Borough Council along with other Kent authorities are working on strategies to minimise the impact of a no deal Brexit on Ashford and wider Kent. Some of these include:

- Road infrastructure, manage congestion at Ports
- Examining the impact of labour supply on key services
- Risk to the economy, e.g. fall in value of Sterling and rising costs
- Promoting Ashford and Kent as a UK headquarters for European businesses that trade in the UK
- Supporting UK business to business trade rather than EU to UK
- Promotion of tourism

12. There is dedicated work happening in Ashford through Management Team which includes working with local business. Covered by 4 themes:

- Identifying and speaking to key suppliers ensuring they have plans in place so services will not be disrupted
- Identifying specific service risks and developing mitigation strategies
- Reviewing business continuity arrangements.
- Extending business support and mentoring with the Business of Commerce.
- Participating in County wide Business Continuity and Emergency Planning exercises

Government Agenda

13. Currently Ashford Borough Council is part of the Kent Pool for Business Rates which offers a number of benefits to the Council including benefiting from the business rate growth within the district.

14. Earlier in the Year Government abandoned a multi year spending review in favour of a one year settlement for 2020/21, based on the previous year's settlement uplifted for inflation. The governments consultation paper on the settlement gave some indication on the direction of travel for future funding announcements which include a full reset of the business rates system and the ending of New Homes Bonus. All estimates of funding beyond 2020/21 are our forecasts based upon losing some growth from the business rates however assuming that the council will maintain current funding levels. This represents a major risk to the MTFP with Government working on the fair funding review and a comprehensive spending review, which are both imminent. Both of these have the ability to fundamentally affect the funding position of Local Government. There is a strong policy driver to divert funding to Social Care, which has a potential to transfer resources away from District Councils to County Councils. This needs to be balanced against the impact on District Councils and the need to maintain key service priorities.

15. There is a risk that other funding streams such as New Homes Bonus (NHB). The Council current builds around £2m into the base budget, £1.5m 50% of NHB funding and £0.5m annual approved projects within the base budget. The MTFP is built based on this funding continuing to be received at current levels. There is however information in the 2020/21 settlement that indicates the 2020/21 allocation will only be for one year, rather than including a further three year legacy payments.

16. Negative RSG, this is the term used where the funding mechanism calculates that an Authority has 'too much resource' and places a negative figure for

formula grant. This is effectively the redistribution of Council Tax resources around the country with the poorer areas receiving funding which will be financed by other authorities. There are serious issues of the fairness of this, as Local Councils make decisions on Council Tax Levels based on local needs and this can now be moved elsewhere. Ashford moved into negative RSG in 2019/20 however Government decided to waive the £240,000 that was payable, it is expected that this will also be the case in 2020/21. The Council will continue to raise its objection to this approach at every opportunity. It is anticipated that the Fair Funding Review will seek to reset funding levels for Authorities.

17. During October 2020 the Government increased the Borrowing rate from the Public Works Loan Board by 100 bases points. This will increase the cost of Long Term borrowing for Local Authorities. This increase could affect the viability of future projects but will not impact upon the rate of interest paid on existing PWLB loans. Government has also suggested that this may be reviewed for borrowing in relation to housing schemes. This positon needs to remain under review as the local authority lending market will evolve as a result of this change and may bring in alternative lenders at competitive rates.

Local impact of Government Policy

18. Within the Borough Universal Credit went live in June 2018 and the Council has seen some adverse effects to housing debt. This is being reviewed and tenants supported where possible. The Housing Benefit case load is slowly reducing as residents transfer onto the new benefit, and it is estimated that this will be at a rate of 1,000 claims per annum, reductions in work within the Revenues and Benefits team are currently being managed through staff turnover and reduced use of outsourcing.

19. The Homelessness Reduction Act came into force during 2018 and that time Ashford invested in staff and strategies to strengthen the prevention. Over 2019/20 homelessness numbers have reduced and the Council is actively working on further strategies to reduce further, these strategies include increasing the Council's Housing Stock through the purchase of on street properties.

20. The Council is looking to review, along with other local authorities, the countywide Council Tax Support scheme. The purpose of this is to simplify the scheme rather than make saving however there will be a reduction in the administration when is goes live in April 2020. The report will be presented to Cabinet in January 2020.

One Year Settlement

21. The Government announced a one year settlement for 2020/21 (based on current funding levels) due to delays on Local Authority funding reviews.

22. The settlement estimates for 2020/21 within the MTFP are detailed in the table below:

Table 1: one year settlement

	2020-21 £m
Settlement Funding Assessment	2.87
of which:	
Revenue Support Grant	0

Baseline Funding Level	2.87
Tariff/Top-Up	-16.32
Tariff/Top-Up adjustment	0

* The amounts in the table are totals rounded to 2 decimal places

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

Key Assumptions

24. *Revenue Support Grant* (historically the 'staple' of local authority funding) from 2019/20 a negative RSG payment to Government was expected to be made however the Government waived this and the MTFP assumption is or this to continue into 2020/21.

25. Assumptions have been made that key grants supporting the administration of the Revenues and Benefits team will see further reductions for 2020/21 and are expected to be 25% lower from 2019/20 levels as a result of further reductions in work due to Universal Credit. To manage this Finance has reduced staffing levels over the last few years and continue to do so through staff turnover. This has been achieved partly from increasing reliance on Customer Services.

26. *Inflation* is a factor that needs to be managed carefully within any financial planning regime. Inflation levels have continued to rise during 2019/20, and there is some uncertainty as we move into 2020/21. The MTFP reflects Arlingclose estimates of CPI returning to the 2% target and rising slightly nearer the end of the plan.

27. *Interest rates* have been forecast in line with the Arlingclose (Treasury Management Advisors) forecasts. As a short term borrower the Council is more open to interest rate risk. This strategy is in accordance with the Treasury Management Policy and is monitored by Officers alongside Arlingclose treasury advisors.

28. *Pay* – The MTFP current assumes a 1.7% cost of living increase. This has not yet been agreed with staff and Unison.

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

30. *Business Rates* – Increases in business rates are set by the CPI level in the preceding September.

31. *Council Tax* – Last year Government capped the level that council tax could be increased by without a local referendum at 3% or £5 whichever is the greater. A 3% increase would result in a £4.87 increase in Council Tax for a band D property. For planning purposes the MTFP has assumed the

maximum increase available to the Council a £5.00 (3.08%) increase for 2020/21, 2% increase in 2021/22 continuing for the remainder of the plan. The decision on the level of Council Tax is taken each year by Council in March. A table of assumptions is included in **Appendix A**

Reserves

32. The Council's general fund reserves - as at 31 March 2019 - are shown in **Table 3** below, with a forecast for movements within the current financial year. This shows that the Council's reserves are robust and adequate. The Council has a policy of maintaining the general fund balance of at least 15% of net budget requirement which is currently around £2.4m. Reserves have been earmarked to fund a number of Corporate Projects; the corporate project plans are monitored and updated regularly.

33. As part of the closure of accounts members requested a further reserve to be created that provides additional funding to support the Council's revenue budget in the event of an economic downturn.

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

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

Table 2: Summary of Earmarked Reserves

	Balance as at 31 March 2019	**2019/20 Transfers**	**Estimated Balance as at 31 March 2020**	**2020/21 Transfers**	**Estimated Balance as at 31 March 2021**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Earmarked reserves					
Projects	7,020	(1,780)	5,240	(3,000)	2,240
Risk Management	5,650	(500)	5,150	(1,000)	4,150
Maintenance of Assets	1,770	(750)	1,020	(250)	770
Service and other earmarked	2,270	(250)	2,020	(250)	1,770
Developer Contributions	6,220	(500)	5,720	(1,500)	4,220
Total Earmarked	**22,930**	**(3,780)**	**19,150**	**(6,000)**	**13,150**
General Fund Balance	2,290	130	2,420	130	2,550
Total General Reserves	**25,220**	**(3,650)**	**21,570**	**(5,870)**	**15,700**

Inflation Management Strategy

36. Within the MTFP model the cost of inflation (£655,000) outweighs the increases in revenue generated by inflationary increases in fees and charges (£222,000), on average this cost pressure equates to £433,000 per annum including pay.

37. To manage this pressure, over a number of years, the Council made the decision to manage the inflationary impact from absorbing the pressure through savings elsewhere within services. With continued pressure from inflation it is important to review regularly and understand how inflationary pressures will be managed for the life of the MTFP.

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

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

New Homes Bonus

40. The Council currently receives a New Homes Bonus (NHB) payment for four years for every property built or brought back into use in the borough. The amount the Council receives is also top sliced to divert funding to Adult Social Care and this has been modelled in the MTFP.

41. This non ring-fenced grant can be used for both revenue and capital purposes at the Council's discretion.

42. Assumptions on future levels of NHB are based upon the forecast numbers of new properties, however there is an element of delay built in based on historical information and information received from the investigation team, that monitor properties completion for Council Tax charging. Members are reminded on the earlier advice on the risks to the continuation of New Homes Bonus.

43. £1.45m of NHB is being used to fund the Base Budget in addition to this there are a number of 'revenue corporate projects' that have previously been approved by Members that are funded from New Homes Bonus on an ongoing basis and are included in the base budget:

Project Theme	Outline	
Support for town centre	Town Manager & Economic Development	60,000
Town Centre Action Team	Incorporated into the Aspire service	120,000
Direct Ward Benefit	Contribution from NHB towards ward member grants.	22,000
Community Grants (for Single Grants Gateway)	Continued commitment to underpin voluntary sector	145,000
Environmental Enhancements (Town/Gateways)	Developments of Grounds Maintenance/ Open Space	150,000
Town Centre Projects	Various projects to improve the image and prosperity of the Town Centre.	50,000
Sk8side	Two year funding to maintain facility	30,000
Town Centre Events	Three year funding	130,000
		707,000

44. The remaining amount of the NHB is set aside to fund other Corporate Projects and is allocated to reserves within the MTFP, for 2020/21 this is estimated to be £744,000.

45. NHB is an important element of the Council's funding, the Council will try to maintain a 50% base budget funding and 50% Corporate Projects for the life of NHB however should an emerging pressure be identified during the planning process NHB could be used to fund this pressure, this will however be reported to Cabinet.

46. The Government is current reviewing Local Authority funding and there is a risk that NHB will be removed as a funding stream. Currently the MTFP assumes a continuation of this funding based on the current scheme.

Business Rates Growth

47. Business rates is a major part of local government funding, retaining 40% of business rates collected, although this is subject to a tariff of £15.8m leaving baseline funding of £2.8m. The current scheme allows a retention of 50% of any growth over the set baseline position. The current general fund budget is £5m this suggests that the Council has already achieved £1.9m of growth.

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

    a. Was our opening forecast for business rates yield for 2019/20 reasonably accurate?

    b. Is the appeals provision prudent?

c. What is the performance of the pool?

d. How should we look at future business rate growth as funding for the budget?

a. The 2019/20 Yield Forecast

49. The next rateable value of business properties will be in April 2021 and will be followed by 3 yearly valuations.

50. The first and second quarter data has been analysed and it is expected that the yield will be in line with budget expectations.

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

b. The Business Rate Appeals Provision

52. In 2017/18 a new appeals system was introduced 'Check. Challenge. Appeal'. It was hoped that a large majority of cases would be resolved at the 'check' stage. Current data for 2018/19 and 2019/20 suggests that this expectation is correct, there are currently less appeals brought forward.

53. In calculating the appeals provision there are two lists. The 2017 list, where there is little claims experience upon which to base a calculation of the provision. All Kent authorities have therefore reviewed their appeals provision and calculated the potential risk to be 2.7% of net rates payable. The 2010 list is a detailed analysis based on historical success rates, the percentage calculated based on these.

54. The Council had an appeals provision of £3.8m at the start of the year, this position is monitored throughout the year and reported to Cabinet.

c. Performance of the Pool

55. The Council is part of the Kent Business Rates Pool, which contains most of the Kent Authorities. Membership of the pool provides a mechanism to reduce the levy payable by local authorities on growth and to promote economic development.

56. Membership of the pool has resulted in the levy payable on growth being paid into the pool rather than paid to Government. In 2018/19 the Council retained 30% (£452,000), with a further 30% allocated to Economic Development whose use will be determined jointly between Kent County Council and Ashford Borough Council. As the expenditure would not be in the budget framework, any scheme would need to be approved by Cabinet and Council.

d. Future Year's Business Rate Growth

57. There are several prospective large commercial developments happening in Ashford and many proposed for the future, with added focus from the Council, development are expected to continue to come forward over the next five years, and this should be a primary focus, as the additional rates yield is an important aspect of the MTFP.

Developing Future Income Streams

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

59. The Medium Term Financial Plan includes income from projects that have been confirmed, such as investment in the Property Company, £100m included within the plan with significant drawdowns in 2020/21 and 2021/22 and the Elwick Place development is also included within the plan. Future projects that have not yet been approved or started have not been included.

MTFP Forecast

60. The forecast detailed in the table below takes into account the items discussed above. The forecast, which is not cumulative, shows that there are pressures coming forward from 2022/23 with more significant pressures from 2023/24.

61. The 2020/21 budget has been balanced, this was predominantly achieved through savings in services, amounting to £600,000. The target was set at £50,000 per service.

62. The 2021/22 year initially showed a £1m pressure. This pressure is mainly coming through from commercial activities, including Elwick place. The Economic Resilience Reserve, set up for these fluctuations has been utilised to reduce this pressure for the one year.

63. The 2023/24 pressure coming through is the estimated impact of the retendering of the waste contract which has been informed by current market intelligence. Management Team will work with Members to develop a funding strategy to manage this pressure over the following year.

64. It should be noted that there could be significant changes to government funding that has not been reflected in the later years of this programme but could include a reduction in Business Rate income and the removal of New Homes Bonus funding.

65. Attached at **Appendix C** are the pressures and saving coming through into the financial plan from services.

Table 3 - GENERAL FUND REVENUE FORECAST 2020/21 to 2024/25

	2020/21 £'000's	*2021/22* £'000's	2022/23 £'000's	2023/24 £'000's	2024/25 £'000's
S31 Grant NNDR reliefs	*(1,375)*	*0*	*0*	*0*	*0*
Retained Business Rates	*(3,618)*	*(4,614)*	*(4,483)*	*(4,384)*	*(4,170)*
New Homes Bonus (50% allocated to support base budget)	*(2,901)*	*(2,629)*	*(2,790)*	*(2,789)*	*(2,928)*
Government Funding	(7,894)	(7,243)	(7,273)	(7,173)	(7,098)
Council Tax	(7,925)	(8,225)	(8,536)	(8,859)	(9,194)
Total Income Receipts (Including Specific Grants)	(52,081)	(51,265)	(51,245)	(51,441)	(51,658)
Base Budget Gross Expenditure	68,467	69,119	69,333	69,124	70,733
Budget Increases	(567)	(2,395)	(1,908)	(177)	(1,060)
BUDGET GAP	**0**	**(9)**	**371**	**1,474**	**1,723**

Balancing the budget gap

66. Management Team and Members have discussed the budget gap in later years needs to be managed when the waste contract is retendered. Members and Management Team are working on plans to manage any pressures coming through to ensure the gap does not widen. This will be achieved through:

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

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

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

Next Steps

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

Appendix A

Key Assumptions

	2019/20	2020/21	2021/22	2022/23	2023/24
Pay inflation and increments	2.40%	2.20%	2.20%	2.20%	2.20%
Contract inflation	3.00%	3.00%	3.10%	3.10%	3.30%
Income inflation	3.00%	3.00%	3.10%	3.10%	3.30%
General inflation	2.00%	2.00%	2.10%	2.10%	2.30%
Utilities inflation	3.80%	4.00%	4.20%	4.20%	4.20%
Business rate growth	2.00%	2.00%	2.10%	2.10%	2.30%
Benefits Inflation	1.00%	1.00%	1.00%	1.00%	1.00%
Pension	4.00%	4.00%	4.00%	4.00%	4.00%
Base rate	0.75%	0.75%	0.75%	0.75%	0.75%
Council Tax Increase	3.10%	2.00%	2.00%	2.00%	2.00%

Appendix B

Inflation Management Strategy

The role of council tax and council tax increases.

1. All the while council tax increases are low, they are effectively doing no more than combating inflation. This Council has a desire to stay the lowest Council Tax in Kent, however even with a £5 increase Ashford will stay the lowest unless another authority reduces its Council Tax level which is unlikely in the current climate.

Managing inflation cost pressures

a) Pay

2. The largest single inflationary impact at £385k. The Council were in discussion with Unison and staff regarding the 2020/21 paying increase, the current offer is 1.7% for one year or 1.5% per annum for two years. Every 1% adds around £160k per annum.

b) Non-pay budgets

3. Exercising constraint requiring services to consume inflationary impacts, by reducing the budget uplifts, this places more onus on budget managers to manage demands through greater efficiency, stronger procurement or negotiations with contractors. It would be unwise to adopt this practice for a number of years without periodic review. In line with this policy, for 2020/21 an increase of 3% has been assumed for non-pay (service) budgets. This is in line with the OBR forecasts

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

c) Efficiency and new sources of income

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

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

d) The role of service fees and charges

7. The MTFP forecast assumes fees and charges will increase by 1% above the rate of the Consumer Prices Index (taken at the November preceding the financial year). This assumption relates only to charges where the council has the discretion to decide increases. Car park charges, however, are more sensitive and so need more judgment and therefore fee levels are considered separately. The MTFP, over its lifetime, does not make any assumptions about car park charges changing.

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

e) The treasury management role and interest on investments

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