

Medium Term Financial Plan 2019/20 to 2023/24

1. Purpose of the Medium Term Financial Plan

- 1.1 The Medium Term Financial Plan (MTFP) is part of the Council's Policy Framework as set out in Article 4 of the Constitution.
- 1.2 It describes the financial direction of the Council for planning purposes and outlines the financial pressures over a 5 year period, but is reviewed annually to reflect the changes to local requirements, economic conditions and government funding.
- 1.3 It also supports our ambition to be recognised as a leading authority that delivers quality services, that provides value for money and that makes the borough a great place to live.

2. Benefits of the MTFP

The benefits of the MTFP are:

- 2.1 Improving financial planning and the financial management of the Council's revenue and capital resources.
- 2.2 Maximising the use of resources available to the Council, both internal and external.
- 2.3 Ensuring that the Council provides value for money and delivers budget savings.
- 2.4 Allowing the development of longer-term budgets and strategic thinking.
- 2.5 Aligning financial resources to the Council's spending priorities.
- 2.6 Reviewing the Council's reserves policy to ensure there is protection against unforeseen events.
- 2.7 Developing financial sustainability over the medium-term.
- 2.8 Highlighting financial risks and developing mitigating controls.

3. Principles of the MTFP

The principles underlying the MTFP are as follows:

- 3.1 The overall financial strategy will be to ensure that the Council's resources are directed to achieving the priorities set out in the *Five Year Plan 2015-20*.
- 3.2 The Council recognises that it is facing imminent funding challenges that will need to be addressed by budget savings, changes to service and new sources of income, or a combination of the three.

- 3.3 The Council will maintain its General Fund reserve at a minimum of 15% of the annual net revenue budget to cover any major unforeseen expenditure. This equates £2.6m as at the end of August 2018. The Council will aim to balance its revenue budget over the period of the MTFP with use of appropriate reserves.
- 3.4 Earmarked reserves will be maintained for specific purposes which are consistent with achieving key priorities. The use of earmarked reserves will be in line with the principles set out in the MTFP and reviewed annually.
- 3.5 The Council will continue to improve its approach to commissioning and procurement to ensure value for money and minimise the impact of budget savings.
- 3.6 The Council recognises the impact of increases in Council Tax levels on our residents and will balance the need for Council Tax increases against the delivery of services and the *Five Year Plan 2015-20*.
- 3.7 We will ensure that fees and charges are set at an appropriate level and that they take into account comparative levels of charge and ability to pay. Where appropriate a more commercial approach to charging will be adopted.
- 3.8 The Council will consider ways in which it can ensure financial sustainability and maximise income to deliver its priorities. This includes the development of property-based projects to capture both revenue and capital income opportunities. We have developed and are continuing to develop a range of commercial ventures and will determine the most appropriate vehicle for the delivery of those projects.
- 3.9 The Council will – when appropriate - consider the use of borrowing to support capital investment and will ensure that an agreed revenue income stream is identified to meet the borrowing costs when investment decisions are taken.
- 3.10 Opportunities for securing external funding to support the objectives of the *Five Year Plan 2015-20* will be sought. The implications of a reduction or withdrawal of funding will also continue to be reviewed so that options can be considered around the future of such externally funded schemes. It is essential that a short-term benefit to the Council does not become a long-term, unfunded cost.
- 3.11 Opportunities for working in collaboration with partners will be identified and developed where this will support the Council's priorities and improve service efficiency and delivery.
- 3.12 The Service & Financial Planning process will inform a review of the MTFP on an annual basis. This review will include an update of the financial forecasts, expected developments in services, and changes to legislation.

4. Current Financial Context

- 4.1 When planning, the Council has in mind the decision taken in June 2016, to leave the EU. As March 2019 approaches, there remains considerable uncertainty in financial and economic forecasts.
- 4.2 Public sector borrowing continues to fall year on year, according to the ONS Statistical Bulletin August 2018 and is the lowest year-to-date for 16 years (since 2002). The HM Treasury forecast of August 2018 indicates that this will continue to fall throughout the forecast period.
- 4.3 In terms of Government funding of the Council, Revenue Support Grant ceased at the end of 2016/17 and the level of Business Rates retained has been subject to a continuous and rapid reduction.
- 4.4 This Council is participating in the 2018/19 Business Rates Retention Pilot Scheme. The pilots will see councils rewarded for supporting local firms and local jobs to ensure that they benefit directly from the proceeds of economic growth. The Council expects to retain an additional £0.5m from participation in this pilot. No assumption is included in our planning, that this will continue.
- 4.5 *Comprehensive Spending Review*: In a statement to the House of Commons, the chancellor said that he would use the Budget in the autumn 2018 to set out the total public spending envelope for years beyond 2020. Then a full departmental Spending Review in 2019 will set out the departmental allocations across government. Any announcement made could have a significant impact on our Finances.

5. Economic Trends

Interest Rates

- 5.1 The base rate has now increased to 0.75% and average forecasts now predict a sustained increase over the next five years, however Brexit is creating an uncertain and tough space from which to raise rates.

Table 1	2018/19	2019/20	2020/21	2021/22	2022/23
Forecast Interest Rates	%	%	%	%	%
Forecast Bank Rate	0.75%	1.1%	1.5%	2.0%	2.1%

Source: *Forecasts for the UK Economy: A Comparison of Independent Forecasts*
[Compiled and published by HM Treasury August 2018]

Inflation

- 5.2 The rate of inflation (as measured by the Consumer Price Index or CPI) currently exceeds the Bank of England target of 2%, before returning closer to 2% toward the end of the five year forecast period.

Table 2	2018/19	2019/20	2020/21	2021/22	2022/23
Forecast Inflation (CPI)	%	%	%	%	%
Forecast CPI	2.4%	2.1%	2.0%	2.0%	2.1%

Source: *Forecasts for the UK Economy: A Comparison of Independent Forecasts*

[Compiled and published by HM Treasury August 2018]

Economic Growth

- 5.3 Economic growth – as measured by Gross Domestic Product (GDP) - is forecast to rise over the next five years.

Table 3	2018/19	2019/20	2020/21	2021/22	2022/23
Forecast Growth	%	%	%	%	%
Forecast GDP Change	1.3%	1.6%	1.7%	1.8%	1.9%

Source: *Forecasts for the UK Economy: A Comparison of Independent Forecasts*

[Compiled and published by HM Treasury August 2018]

6. Revenue Budgets

- 6.1 The net revenue budget for 2018/19 was set at £15.5m in February 2018. To achieve a balanced budget for each year of the forecast period it is anticipated that savings and additional income streams will be required.
- 6.2 Savings opportunities and growth pressures will be identified through the rolling Service & Financial Planning process.
- 6.3 The following assumptions are based on projected levels of government grant, likely economic conditions and other “local” factors.

i. Council Tax

It is assumed that this will increase by the referendum limit each year over the forecast period.

ii. Retained Business Rates (NNDR) Income

It is assumed that this will reduce in line with the multi-year settlement data announced in February 2016.

iii. **Fees & Charges**

It is assumed that – where possible – these will increase in line with the inflation forecasts (as set out in section 5.2) or in response to legislation.

iv. **Investment Income**

The security of cash deposits will remain important. As a result investment income has been assumed to be at a level consistent with the forecast base rates in section 5.1.

v. **Borrowing**

When new projects are brought forward the most appropriate way of financing them will form part of the appraisal of financial viability.

vi. **Staff**

An allowance for a pay award approximately in line with the inflation projections in section 5.2 has been included in each year. This provides the option for pay rises but will be considered on a year-by-year basis and be subject to the normal consultation process.

7. Capital Programme

- 7.1 As supported by the Council's investment strategy, the Council's capital investment plans over the next 5 years are set out in the Capital Programme. The efficient and effective use of capital resources, including sound asset management, is fundamental to the Council achieving its long- and medium-term aims and objectives. It is also critical to achieving the delivery of the required savings and income across the Council and providing optimum services.
- 7.2 Any capital investment decision will have implications for the revenue budget. The revenue costs over the lifetime of each proposed capital project are considered when the project is being developed to ensure that the impact can be incorporated within our financial plans and to demonstrate that the capital investment is affordable.
- 7.3 The Prudential System of Local Government Capital Finance as updated February 2018 allows local authorities to borrow as long as their capital spending plans are affordable, prudent and sustainable.
- 7.4 In order for borrowing to be considered prudent, affordable and sustainable there must be a long-term source of revenue funding to meet the costs of borrowing. Ideally this will come from revenue savings or from additional income generated directly from the capital project.

7.5 The Capital Programme to 2023/24 is summarised below.

Table 5	2019/20	2020/21	2021/22	2022/23	2023/24
Capital Summary	£000	£000	£000	£000	£000
Capital Reserves at 1st April	25,321	12,452	25,311	25,170	25,625
Add Receipts & Grants	43,379	57,233	2,818	3,364	3,264
Less Expenditure	56,248	44,374	2,959	2,909	2,909
Capital Reserves at 31 st March	12,452	25,311	25,170	25,625	25,980

7.6 Capital receipts from the sale of assets are held in reserves and treated corporately to allow the Council to target resources toward the highest priority projects.

8. Revenue Reserves

8.1 The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. The Chief Finance Officer is required, as part of the budget-setting process, to provide a statement on the adequacy of reserves.

Reserves Policy

8.2 The Council will maintain its general reserve (the General Fund) at a minimum of 15% of the net revenue budget to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget over the period of the MTFP without reliance on the use of the general reserve.

8.3 Other “earmarked” reserves will be maintained for specific purposes which are consistent with achieving key priorities and/or are required to separately account for Government funding streams.

8.4 The Council’s current revenue reserves are set out in the following sections.

i. General Fund

This acts as a buffer against unpredicted budget pressures. The current (unallocated) level of around £9.9m is greater than the minimum level required of £2.6m but is regarded as prudent given uncertainty around business rates reforms and the ongoing impact of welfare reforms.

ii. Corporate Plan Delivery Fund (CPDF)

This provides time-limited funding to deliver key priorities, *Five Year Plan 2015-20* objectives and invest-to-save initiatives. The balance at the beginning of the year was £2.7m and the expected usage in 2018/19 is £2.0m.

iii. **Business Rates Equalisation Reserve**

This was established to mitigate the impact of any fluctuations in retained business rates income resulting from, for instance, a back-dated rating appeal or a major employer leaving the area. The balance is £1.0m.

iv. **Insurance Reserve**

This provides cover against uninsured losses and has a balance of £550,000.

v. **New Homes Bonus (NHB) Reserve**

This was established to separately account for NHB income prior to it being used. The balance is £14.5m.

vi. **Superannuation Reserve**

This was established to “smooth” any sudden increases in pension cost. The balance is £1.5m.

vii. **Growth Points Reserve**

This was established to separately account for Growth Points funding prior to it being used. The balance is £286,381.

viii. **High Street Innovation Reserve**

This was established to separately account for the funding of this initiative prior to it being used. The balance is £36,637.

ix. **Business Support Scheme**

This was established to separately account for the allocation of funding to help flood affected business. The balance is £147,221.

x. **Neighbourhood Improvement Reserve**

This was established to separately account for the funding set aside for neighbourhood improvement projects. The balance is £80,700.

xi. **Government Funding Reduction Reserve**

This was established at the end of 2017/18 for the purpose of mitigating the loss of Government funding and has a balance of £800,000.

9. Risk Management

9.1 The Council's Strategic Risk Register contains the following:

“The Council receives no Revenue Support Grant from government, and although piloting local retention, we anticipate business rate income to reduce significantly.”

“The Council is therefore reliant on other income including council tax and fees & charges. Increasingly these are impacted by wider economic factors.”

“The Council is therefore seeking a diverse range of investment and commercial opportunities. These will require capacity, skills, expertise and behaviours within the organisation to generate new initiatives that can be used to invest in our services to residents and businesses. Without this investment, there is a risk that funding reductions or economic downturn could result in cuts to service provision.”

- 9.2 The principles and assumptions contained within this Plan are aimed at ensuring that the Council is financially sustainable and continues to deliver high quality services.
- 9.3 Individual revenue and capital budget proposals will be subject to detailed risk assessment prior to inception as part of the decision to proceed.