MEDIUM TERM FINANCIAL PLAN SUMMARY
2020/21 to 2024/25
November 2019

Introduction

This Medium Term Financial Plan (MTFP) is a summary of our key financial information, including the budget challenges that we face over the period 2020/21 to 2024/25 and our approach to addressing them.

It sets out our approach to establishing a sustainable financial base to support delivery of our policies and priorities. It also highlights the financial risks and issues which have to be tackled, including ongoing reductions in Government funding.

In July 2019 the Executive approved the latest version of the MTFP. This document refreshes and updates the key elements of the MTFP in anticipation of service & financial planning for 2020/21.

1. CIPFA Financial Management (FM) Code

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, has not until now been supported by a professional code.

The CIPFA FM Code was therefore introduced in October 2019 and will be applicable from 1 April 2020. Work will be undertaken as part of 2020/21 budget-setting to review compliance with the Principles and Standards in the Code and to identify any actions required to address any gaps identified.

CIPFA explain that reasons for introducing the Code include: '… the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders' confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely….'.

The Code has several components, comprising:

- An introduction explaining how the FM Code applies, a principles-based approach and how it relates to other statutory and good practice guidance on the subject.
- The CIPFA Statement of Principles of Good Financial Management, the benchmarks against which financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.
- The FM Code then translates these principles into financial management standards which will have different practical applications according to the circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within the code, reflecting the non-prescriptive approach adopted by CIPFA.

The Principles focus determining whether, in applying standards of financial management, a local authority is financially sustainable. They cover:

- Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional standards is promoted by the leadership team and is evidenced.
- Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The supporting financial management Standards are summarised in the table below:

Table 1: CIPFA Financial Management Standards	
FM Standard Reference	
Section 1: The responsibilities of the chief finance officer and leadership team	
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B	The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.*
Section 2: Governance and financial management style	
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).
E	The financial management style of the authority supports financial sustainability.
Section 3: Long to medium-term financial management	
F	The authority has carried out a credible and transparent financial resilience assessment.
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

Table 1: CIPFA Financial Management Standards	
FM Standard Reference	
Section 4: The annual budget	
J	The authority complies with its statutory obligations in respect of the budget setting process.
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.
Section 5: Stakeholder engagement and business plans	
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
Section 6: Monitoring financial performance	
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
Section 7: External financial reporting	
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

2. Medium Term Financial Plan Context

The Economy and Public Spending

There remains considerable uncertainty in financial and economic forecasts. In September 2019 the Office for Budget Responsibility (OBR) reported

- *Public sector net borrowing (PSNB) is estimated at £9.4 billion in September, £0.6 billion higher than a year earlier. It has risen in five out of six months so far in 2019-20.*
- *Year-to-date borrowing was up £7.2 billion (21.6 per cent) on the same period last year. In our March forecast (including our estimate at the time of the student loans methodology change), we assumed a £7.2 billion (21.8 per cent) rise in borrowing for 2019-20 as a whole. Stronger than expected spending growth is driving the faster rise in the deficit.*
- *Central government receipts (excluding PSNB-neutral transfers related to 'quantitative easing') were up 6.9 per cent in September. Year-to-date receipts*

growth of 3.6 per cent is above our March forecast of a 2.6 per cent rise in 2019-20 (on a like-for-like basis).

- *Central government spending (excluding PSNB-neutral grants to local authorities) was up 7.4 per cent in September and 5.4 per cent for the year to date, well above our March forecast of a 3.3 per cent rise in 2019-20 (on a like-for-like basis).*
- *Net debt was 1.2 per cent of GDP lower in September 2019 than a year earlier.*

In August 2019 the council's Treasury advisors (Link Asset Management) observed:

- *The risk of a UK recession was evidenced by the 0.2% q/q contraction of GDP growth in Q2 and the weak August PMIs, but economists are confident that Q3 should prove better, and recession averted.*
- *The early holiday closure of car production in April means that the usual negative impact seen in August will not be felt this year, which should provide a sufficient boost to ensure that growth does not decline. However, looking ahead, performance will be defined by Brexit.*
- *While a "no deal" may not happen at the end of October, this might still only be kicking the can down the road to January if an extension to the process is requested/granted. If a deal can be achieved then the economy will just be at the mercy of the state of the global economy, but if a "no deal" proves the only way to exit the EU then there could prove to be more serious concerns.*

Interest Rates

The base rate remains at 0.75% (October 2019). Average forecasts continue to predict a sustained increase; however Brexit continues to create uncertainty.

Table 2 **Forecast Interest Rates**	**Dec 2019** **%**	**June 2020** **%**	**Dec 2020** **%**	**June 2021** **%**
Forecast Bank Rate	0.75%	0.75%	1.00%	1.00%

Source: *Link Asset Management October 2019*

Inflation

The rate of inflation (as measured by the Consumer Price Index - CPI) currently falls within the Bank of England target of 2%.

Table 3 **Forecast Inflation (CPI)**	**2019/20** **%**	**2020/21** **%**	**2021/22** **%**	**2022/23** **%**	**2022/24** **£%**
Forecast CPI	1.9%	2.0%	2.09%	2.1%	2.1%

Source: Forecasts for the UK Economy: A Comparison of Independent Forecasts
[Compiled and published by HM Treasury August 2019]

Economic Growth

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

Table 4 **Forecast Growth**	**2019/20** **%**	**2020/21** **%**	**2021/22** **%**	**2022/23** **%**	**2023/24** **£%**

Forecast GDP Change	1.2%	1.3%	1.6%	1.7%	1.8%

Source: Forecasts for the UK Economy: A Comparison of Independent Forecasts [Compiled and published by HM Treasury August 2019]

Service & Financial Planning: Government Funding Assumptions
For the purposes of preparing the draft 2020/21 budget the following has been assumed:

- No changes to total local government funding as a result of Spending Round19
- Funding changes delayed to 2020/21. This means that
  - Fair Funding Review will reduce our Government funding by £1.5m ('negative RSG')
  - the Reset of Business rates will reduce our funding by £0.7m
- No transitional funding arrangements
- Council taxbase growth of c1.00% per annum and council tax increases capped at a maximum of 1.99% or £5
- Funding from New Homes Bonus may not continue (and to remain outside our budget calculations)

3. Budget-Setting Priorities 2020/21

The Priorities that will be taken into account when preparing the draft budget for 2020/21 are set out below:

- To ensure resources are aligned with the emerging **Corporate Plan priorities**
- To maintain a **balanced budget** such that expenditure matches income from council tax, fees and charges, and government and other grants and to maintain that position
- To set a rate for **council tax** which maximises income necessary to deliver our strategic objectives while ensuring that Government referendum limits are not exceeded. The percentage increase will be reviewed annually and be approved by Full Council
- To **maximise other income** by setting fees and charges, where we have the discretion and need to do so, at a level to ensure at least full cost recovery, promptly raising all monies due and minimising the levels of arrears and debt write offs
- To ensure a long term sustainable view is taken of our **investments** and that appropriate risk analyses are used when considering new investments

- To consider and take advantage of **commercial opportunities** as they arise to deliver new income streams

- To maintain an adequate and prudent level of **reserves** and regularly review their planned use and allocation to support delivery of our priorities.

Value for Money
We will assess and challenge the value for money (economy, efficiency and effectiveness) provided by each service through the service & financial planning process.

Information about our performance compared to other councils across a range of published measures is published on the LGA website at https://lginform.local.gov.uk/

4. Council Tax

Decisions around the annual council tax increase and taxbase growth are two key variables in the MTFP.

Although this is a significant funding source, it remains subject to restrictions by Government. The Localism Act included a requirement to hold a local referendum if any council tax increase is deemed 'excessive' and this level is expected to be set at 2.0%.

MTFP forecasts are currently based on an assumed council tax increase of 1.99% per annum; this will be subject to a political decision in February 2020, dependant on circumstances at that time.

The forecast amount of council tax to be collected takes into account local decisions on discounts, exemptions and reliefs and the local council tax support scheme.

Council Tax 2019/20
Reigate & Banstead's share of the council tax for 2019/20 increased by 2.99%. The respective shares of the main precepting bodies is set out below.

Table 5 **Council Tax 2019/20**	**Band D** **£**	**%**
Reigate & Banstead	227.46	12%
Surrey County Council Precept	1,481.71	75%
Surrey Police & Crime Commissioner Precept	260.57	13%
Council Tax Total	**£1,941.53**	**100%**

Council Tax Options 2020/21
Each 1% increase in Council Tax generates £137,000 additional income for this borough.

5. Business Rates (National Non-Domestic Rates)

In 2013, the Government introduced a scheme through which local authorities retain a proportion of any business rates growth above a set 'baseline'. The purpose was to give authorities a financial incentive to encourage and foster economic growth within their area and to work collaboratively with other authorities and business organisations to achieve that growth.

While this scheme was broadly welcomed by the sector, there remain concerns over the potential volatility of this income stream due to the level of appeals; even a small variation in the overall revenue generated can result in a significant financial impact.

The Government is currently undertaking a review of how business rates will operate going forward and has stated its intentions to achieve 75% localisation of business rates from 2021.

The full impact of this will only become clear later during 2019/20 as proposals are developed. This adds a further element of uncertainty to the projected position and suggests caution is needed in any future projections.

6. New Homes Bonus

The New Homes Bonus was introduced in 2011/12. Authorities are rewarded with a financial bonus, equal to the national average council tax on each additional property built which is paid for a number of years as a non-ring fenced Government grant. 80% of the Bonus is paid to the district council and 20% to the county council. here is an enhanced payment for new affordable homes.

New Homes Bonus was revised for the 2017/18 financial year with the length of time it is paid reducing from six to five years (for the 2017/18 award) and to four years from 2019/20 onwards. A new 'baseline' of +0.4% growth was also introduced before any Bonus is paid. The retained funds were used by the Government to support authorities with adult social care responsibilities.

The Government has set out its intention to end New Homes Bonus as part of the Fair Funding Review. The intention is to replace this mechanism with a different means of incentivising and rewarding housing growth. The detail remains unclear.

To date we have set aside this funding in an Earmarked Reserve which may be used for any purpose.

7. Medium Term Financial Plan Forecast 2020/21 onwards

Revenue Budget-Setting Assumptions 2020/21

The following assumptions will be used during service & financial planning over coming months when preparing the draft budget estimates for 2020/21:

Council Tax	• To increase by the referendum limit • Plus an increase due to growth in the taxbase of 1% per annum • The impacts of local discounts, exemptions and the local council tax support scheme will be taken into account when preparing income forecasts.
Government Funding	• Fair Funding Review is expected to reduce our Government funding by £1.5m ('negative RSG') in 2021/22
Retained Business Rates Income	• The Reset of Business Rates is expected to reduce our funding by £0.6m in 2021/22
Fees & Charges	• For budgeting purposes it is assumed that fees and charges will increase in line with the Fees & Charges Policy.
Investment Income and Borrowing	• Investments and borrowing will be forecast in line with forecast balances (reserves) and capital investment plans
Pay Inflation	• As a minimum all Council pay scales are now at or above the Real Living Wage • An allowance for a pay award will be included in the draft budget, in addition to forecast contractual pay increases. • This provides the option for pay rises but the specific rate of increase will be subject to established consultation processes.
Employer Pension Costs	• The latest actuarial review of the Surrey Local Government Pension Fund was as at 31 March 2016; the outcome has been profiled into the budget for the three years to 2019/20. • The 2016 valuation confirmed that the Fund's total assets, which at 31 March 2016 were valued at £3,892 million, were sufficient to meet 83% of liabilities (ie. the present value of promised retirement benefits) accrued up to that date. The resulting total Fund deficit at the 2016 valuation was £679 million. • Each employer has a contribution requirement set at the valuation, with the aim of achieving full funding within an agreed time horizon and probability measure, as set out in the Fund's Funding Strategy Statement. Individual

	employers' contributions for April 2017 to March 2020 were set in accordance with this requirement. For Reigate & Banstead this is based on a 15% payroll oncost charge plus a £1.963m lump sum annual deficit payment. • The next actuarial review will be at 31 March 2019 and any budget implications will be built into budgets for 2020/21 onwards. The outcome of the revaluation will be reported by the Pension Fund later this year. • National consultation is currently in progress regarding moving to a four-year revaluation cycle going forward.
Price Inflation	• The general assumption is that services should first seek to cover price inflation from their existing budgets, unless tied contractually to significant cost increases that warrant additional funding.

8. Medium Term Financial Plan Risks & Sensitivities

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

- *The Council receives no Revenue Support Grant from Central Government. While council tax and business rates make up a significant portion of the Council's funding, they do not cover the full extent of the Council's expenditure.*

- *The Council's ability to generate income from investments may be restricted by changes in regulations and codes of practice.*

- *The Council must therefore put in place a capital investment strategy, supported by appropriate governance structures and resources, to generate additional income to sustain service provision. The failure to generate this income will jeopardise the delivery of corporate objectives. Managing this risk well is dependent on Officers and Members remaining ambitious.*

Details of the mitigating actions are set out at Appendix 5.

Operational Risk Register – Budget-Setting
The principles and assumptions contained within this MPFP are aimed at ensuring that the Council is financially sustainable and continues to deliver high quality services.

Individual revenue and capital budget proposals will be subject to risk assessment as part of the service & financial planning process.

The Council, in common with most local authorities, continues to be at risk from a range of financial risks. They include:

Perceived Risk	Impact	Likelihood	Preventative Action
Failure to remain up to date with changes in relevant legislation, regulations and guidance	High	Low	Ensure that all relevant information is taken into account when producing MTFP and budget forecasts.
Changes in legislation affecting the scope of services and the cost of carrying them out	Medium	Medium	Maintain regular contact with Heads of Service regarding developments that have potential financial implications.
Local Government Financial Settlement worse than forecast	High	Medium	Model a range of MTFP and budget scenarios and strategies.
Outdated MTFP assumptions Significant variations due to economic factors	High	Low	Regularly review and update assumptions.
Inaccurate budget assumptions	High	Medium	Regularly review and update assumptions.
Unexpected financial events	High	Medium	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Deliverability of new income streams against forecast timescales	High	Medium	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Demographic and demand-led pressures	Medium	Medium	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Reduction in existing fees & charges income	Medium	Low	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Contract risks e.g. contractor viability, non-delivery	Medium	Low	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks. Maintain regular contact with Heads of Service regarding developments that have potential financial implications.

Sensitivity Analysis

A small change in key underlying assumptions can produce a significant change in the budget.

Table 6 **Sensitivity**	**Change**	**Estimated annual impact £000**
Business Rates Income	+/- 1%	£8k
Staff Costs	+/- 1%	£220k
Non-Pay Costs	+/- 1%	£80k
Council Tax/Taxbase	+/- 1%	£138k

APPENDICES

1. Strategic Financial Risks

ANNEX 2

APPENDIX 1

EXTRACT: STRATEGIC RISK REGISTER
STRATEGIC FINANCIAL RISKS

Risk No	Risk Description	Owner	Controls	Mitigating Actions / Progress	Rating	Status	Last review Date	Direction of Travel
SR2	Financial Sustainability The Council receives no Revenue Support Grant from Central Government. While council tax and business rates make up a significant portion of the Council's funding, they do not cover the full extent of the Council's expenditure. The Council's ability to generate income from investments may be restricted by changes in regulations and codes of practice. The Council must therefore put in place a capital investment strategy, supported by appropriate governance structures and resources, to generate additional income to sustain service provision. The failure to generate this income will jeopardise the delivery of corporate objectives. Managing this risk well is dependent on Officers and Members remaining ambitious.	PM Portfolio Holder: Cllr Schofield	We will be preparing updated Medium Term Financial Plan (MTFP) Revenue Budget forecasts and a five-year Capital Programme during service & financial planning for 2020/21 onwards. These will be used to confirm the extent of the financial challenges faced and support strategic service & financial planning decisions. We will implement the actions detailed in the Outline Capital Investment Strategy that was approved by Executive in April 2019. This will help ensure that capital investment decisions support delivery of the Council's strategic and financial objectives.	We will continue to ensure that strong financial management arrangements are in place and continue to invest in skills and expertise to support delivery of the council's financial and commercial objectives while managing associated risks. During 2020/21, it is anticipated that new funding arrangements for local government will be introduced, This will follow on from the Fair Funding Review, Business Rates Reset and Comprehensive Spending Review, the outcomes of which and the impacts for this Council are not yet known. The Council is therefore expecting to be increasingly reliant on other sources of income, primarily from fees and charges and from its treasury and commercial investments.	**A**	**Treat**	**17.07.19**	

ANNEX 2

Risk No	Risk Description	Owner	Controls	Mitigating Actions / Progress	Rating	Status	Last review Date	Direction of Travel
			We will implement the Treasury Management Strategy 2019/20 that was approved by Executive in April 2019. This will ensure that treasury investments achieve target returns within approved security and liquidity limits.	This risk was previously managed as SR1 – 'Long-term financial sustainability' on the Q4 2018/19 strategic risk register.				