

POLICY AND RESOURCES COMMITTEE

20 November 2019

Is the final decision on the recommendations in this report to be made at this meeting?

No

Medium Term Financial Strategy 2020/21-2024/25

Final Decision-Maker	Council
Lead Head of Service	Director of Finance and Business Improvement
Lead Officer and Report Author	Director of Finance and Business Improvement
Classification	Public
Wards affected	All

Executive Summary

This report sets out a draft new Medium Term Financial Strategy (MTFS) for the Council. The new strategy updates the existing strategy to cover the five-year period 2020/21 to 2024/25 and to reflect changes in the local authority financial landscape and corporate priorities.

This report makes the following recommendations to this Committee:

1. That Council is recommended to adopt the Medium Term Financial Strategy 2020/21 – 2024/25 as set out in Appendix A.
2. That Council endorses the financial assumptions underlying the Medium Term Financial Strategy.
3. That Council agrees the Council Tax setting principle set out in in paragraph 2.12 of this report.

Timetable

Meeting	Date
Policy and Resources Committee	20 November 2019
Council	18 December 2019
All Service Committees	January 2020
Policy and Resources Committee	12 February 2020
Council	26 February 2020

Medium Term Financial Strategy 2020/21-2024/25

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.	Section 151 Officer & Finance Team
Cross Cutting Objectives	The MTFS supports the cross-cutting objectives in the same way that it supports the Council's other strategic priorities.	Section 151 Officer & Finance Team
Risk Management	This has been addressed in section 5 of the report.	Section 151 Officer & Finance Team
Financial	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process. It is important that the committee gives consideration to the strategic financial consequences of the recommendations in this report.	Section 151 Officer & Finance Team
Staffing	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Section 151 Officer & Finance Team
Legal	The Council has a statutory obligation to set a balanced budget and development of the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	Legal Services
Privacy and Data Protection	Privacy and Data Protection is considered as part of the development of new budget proposals. There are no specific implications arising from this report.	Policy and Information Team
Equalities	The MFTS report scopes the possible impact of the Council's future financial position on service delivery. When a policy, service or function is developed, changed or reviewed, an evidence based equalities impact assessment will be undertaken. Should an	Equalities and Corporate Policy Officer

	impact be identified appropriate mitigations will be identified.	
Public Health	The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy.	Public Health Officer
Crime and Disorder	The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy.	Section 151 Officer & Finance Team
Procurement	The resources to achieve the Council's objectives are allocated through the development of the Medium Term Financial Strategy.	Section 151 Officer & Finance Team

2. INTRODUCTION AND BACKGROUND

- 2.1 The Medium Term Financial Strategy (MTFS) sets out in financial terms how the Council will deliver its Strategic Plan over the next five years. The Council agreed a new Strategic Plan in December 2018 which describes and prioritises our corporate objectives. The MTFS sets out how these objectives will be delivered, given the resources available.
- 2.2 The draft MTFS is attached as Appendix A. It builds on the existing MTFS, which was developed in parallel with the new Strategic Plan and was agreed by Council in December 2018. The main developments since December 2018 have been further central government announcements about local authority funding and refinement of our own corporate priorities.
- 2.3 A key outcome of the process of updating the MTFS is to set a balanced budget and agree a level of council tax for 2020/21 at the Council meeting on 26 February 2020. This report is a key step towards achieving that objective.

Local authority funding

- 2.4 It was originally anticipated that a new local government funding regime would be introduced in 2020/21. However, this has now been delayed until 2021/22 and the government plans to implement a 'roll-forward' settlement for 2020/21, with stability for the majority of funding sources for local government.
- 2.5 The implications of this for the key financial variables are as follows.

Council Tax - The government plans to set a limit of 2% to increases, above which a referendum would be required (as compared to 3% in 2019/20).

Business Rates - The Business Rates baseline, which dictates the amount of business rates that local authorities may retain locally, will be increased in line with inflation.

Negative Revenue Support Grant - The government is currently minded not to levy negative revenue support grant, but this is subject to consultation.

This would mean a broadly neutral revenue position in real terms for Maidstone Borough Council, so long as Council Tax is increased by 2% and no negative RSG is levied.

2.6 The new regime to be implemented in 2021/22 will include much more significant changes, which are likely to include:

- Implementation of a 'Fair Funding Review'
- 75% business rates retention by local authorities (versus 50% now)
- Resetting business rates baselines.

It should be noted that 75% business rates retention will not mean an increase in resources for individual local authorities. The government originally intended the increased business rates income to be accompanied by an increase in responsibilities, eg for public health; it remains to be seen what new responsibilities will actually be devolved to local authorities.

2.7 The implications of this for the MTFS are:

- Assuming no major changes in corporate priorities, a 'standstill' budget could be set for 2020/21, with updating simply to allow for inflation.
- For future years, there remains a considerable degree of uncertainty and it is therefore appropriate to plan for a number of different potential scenarios – favourable, neutral and adverse.

Corporate Objectives and Key Priorities

2.8 The Council's Strategic Plan sets out four key priorities, as follows:

- Embracing Growth and Enabling Infrastructure
- Homes and Communities
- A Thriving Place
- Safe, Clean and Green.

Over the past year, the priority of 'Embracing growth and enabling infrastructure' has been made more explicit through our developing plans for an Innovation Centre, for Maidstone East and a new Garden Community. Investment plans have been approved by Policy and Resources Committee which seek to promote Maidstone as a 'Thriving Place', as well as generating a positive financial return for the Council. The priority of a 'Safe, Clean and Green' place has been emphasised by Council's decision to declare its recognition of global climate and biodiversity emergencies, and to consider adopting a target date of 2030 for the whole of the Borough of Maidstone to be carbon neutral.

2.9 These refinements of the Strategic Plan are likely to involve a limited amount of additional revenue expenditure in the short term, and additional capital investment in the medium to long term. This will be factored into the strategic revenue projections, whilst recognising that the overall requirement to deliver a standstill revenue budget means that budget growth in one area will need to be offset by savings or additional income in another.

Revenue Projections

2.10 Financial projections for the next five years have been updated, based on what is now known about the local government financial settlement for 2020/21 and other emerging information. These projections assume that budget savings already agreed by members, as set in Appendix B, are delivered. Financial projections indicate a budget position as follows under the different scenarios. Full details are set out in Appendix C.

	20/21	21/22	22/23	23/24	24/25
	£m	£m	£m	£m	£m

Scenario 1 – Favourable					
Budget gap / (surplus)	-0.2	0.8	1.1	1.4	1.2

Scenario 2 – Neutral					
Budget gap / (surplus)	-0.1	0.9	1.6	2.1	2.2

Scenario 3 – Adverse					
Budget gap	0.4	1.9	3.3	4.6	5.5

2.11 These figures assume inflation of 2% per annum, in line with the Bank of England's long term forecast, and that Council Tax is increased correspondingly, ie by 2% per annum, such that its level remains constant in real terms. Inflation is currently slightly lower than 2%, at 1.7%, but it is expected to increase to 2%, which is the government's target inflation rate.

2.12 It is recommended that the Council adopts the principle of maintaining the level of Council Tax in real terms. This would mean increasing Council Tax in line with inflation and will help to cover the cost of maintaining the full range of services that the Council provides currently.

2.13 On the basis of these assumptions, a balanced position can be achieved in 2020/21 under the neutral and favourable scenarios. There will be an increasing budget gap in future years, although the deficit flattens out in year 5 as income from Council capital investments grows. The budget gap in the neutral scenario is considered to be manageable, in that by 2024/25 it still represents less than 5% of the Council's projected operating income.

2.14 The projected gap will be kept under review and steps taken to bring forward proposals for addressing it, whether by generating additional income or making savings, in good time such that there is no risk of the Council setting an unbalanced budget in future years.

2.15 The following table compares the position in the neutral scenario for a 2% Council Tax increase with that for a Council Tax freeze, as requested by Members at the meeting of Policy and Resources Committee on 23 July 2019.

	20/21	21/22	22/23	23/24	24/25
	£m	£m	£m	£m	£m

Neutral Scenario – Council Tax increase 2% per annum					
Budget gap	-0.1	0.9	1.6	2.1	2.2

Neutral Scenario – Council Tax freeze					
Budget gap	0.2	1.6	2.6	3.5	4.0

Assuming all other factors remained unchanged, freezing Council Tax would lead to a budget gap of £200,000 in 2020/21. Over the longer term, it can be seen that not increasing Council Tax in line with inflation increases the budget gap to a level which risks being unmanageable.

Capital Programme

2.16 The capital programme plays a vital part in delivering the Council’s strategic plan, since it is only through long term investment that our ambitions for the borough can be realised. The capital programme is a rolling five year programme. The existing capital programme totals £109 million over five years. Major schemes include the following:

- Brunswick Street redevelopment
- Union Street redevelopment
- Further mixed housing and regeneration schemes
- Council affordable housing programme
- Housing for temporary accommodation
- Flood Action Plan
- Improvements at Mote Park
- Mote Park dam works
- Town centre regeneration
- Commercial property investments.

2.17 Schemes may be included in the capital programme if they fall within one of the four following categories:

- Required for statutory reasons, eg to ensure that Council property meets health and safety requirements;
- Self-funding schemes focused on strategic plan priority outcomes;
- Other schemes focused on strategic plan priority outcomes; and
- Other priority schemes which will attract significant external funding.

- 2.18 To the extent that schemes are self-funding, in other words they cover the cost of finance and a provision for repayment of borrowing, there is no net impact on the revenue budget. This gives scope for the capital programme to be expanded, subject to the Council's agreed prudential indicators. These indicators are important in ensuring that the burden of borrowing is reasonable given the Council's overall revenue budget.

Reserves

- 2.19 The Council maintains reserves as a safety net to allow for unforeseen circumstances. There is no statutory definition of the minimum level of reserves: the amount required is a matter of judgement. However, the Council has agreed to set £2 million as the minimum General Fund balance.
- 2.20 In practice, reserves are higher than this. In total, General Fund balances at 31 March 2019 amounted to £14.4 million. The budget for the current financial year allows for a further £1.6 million, money that was originally set aside to pay negative Revenue Support Grant, to be added to reserves as a contingency for future funding pressures. It is proposed that this contingency be rolled forward to 2021/22, given that the government's standstill funding settlement does not require us to draw on the contingency in 2020/21. This would maintain reserves at a healthy, but not excessive level.

Conclusion

- 2.21 In the short term, the government's spending round announcements allow the Council to assume a real terms 'stand still' spending position for 2020/21, provided Council Tax is increased up to the referendum limit of 2%.
- 2.22 In the longer term, a budget gap is likely to emerge. Budget proposals will be brought forward to address the projected gap as necessary, whether by generating additional income or making savings, such that there is no risk of the Council setting an unbalanced budget in future years.

3. AVAILABLE OPTIONS

- 3.1 The Committee could recommend adoption of the draft MTFS attached at Appendix A, endorsement of the underlying financial assumptions and agreement to the Council Tax setting principle set out in paragraph 2.12 above.
- 3.2 The Committee could recommend adoption of the draft MTFS, subject to any amendments that it may agree.
- 3.3 The Committee could choose not to recommend the MTFS for adoption.
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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The Committee is asked to recommend adoption of the draft MTFS along with the underlying assumptions and the Council Tax setting principle described above. Without an agreed MTFS, the Council will have no formal framework for consideration of next year's budget, and will therefore risk not being able to meet its statutory responsibility to set a budget. The basis for the assumptions underlying the MTFS and the proposed Council Tax setting principle are set out in the body of this report.
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5. RISK

- 5.1 The preceding paragraphs have indicated at several points the risks and uncertainty surrounding the Council's financial position. In order to address these in a structured way and to ensure that appropriate mitigations are developed, the Council has developed a budget risk register. This seeks to capture all known budget risks and to present them in a readily comprehensible way. The budget risk register is updated regularly and is reviewed by the Audit, Governance and Standards Committee at each meeting.
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6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 Policy and Resources Committee reviewed the background to setting a new Medium Term Financial Strategy at their meeting on 23 July. They noted the planning assumptions and requested that officers consider the implications of both (a) a Council Tax freeze and (b) maintaining the level of Council Tax in real terms.
- 6.2 The three Service Committees – Economic Regeneration & Leisure, Strategic Planning & Infrastructure and Communities, Housing & Environment – have considered the draft MTFS at their meetings in November. The outcomes will be reported at this evening's meeting.
- 6.3 A survey has recently concluded, in which residents were consulted on what they wish to see in the budget. The results will be reported when detailed budget proposals are presented to the Committee in January 2020, so Members will be able to take into account residents' views at that stage.
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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 An outline timetable for developing the Medium Term Financial Strategy and budget for 2020/21 is set out below.

<i>Date</i>	<i>Meeting</i>	<i>Action</i>
20 November 2019	Policy and Resources Committee	Agree updated MTFS for submission to Council
18 December 2019	Council	Approve updated MTFS
October – December		Develop detailed budget proposals for 2020/21
January 2020	All Service Committees	Consider 20/21 budget proposals
12 February 2020	Policy and Resources Committee	Agree 20/21 budget proposals for recommendation to Council
26 February 2020	Council	Approve 20/21 budget

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Draft Medium Term Financial Strategy 2020/21 – 2024/25
- Appendix B: Agreed Budget Savings 2020/21 – 2023/24
- Appendix C: Strategic Revenue Projections 2020/21 – 2024/25 – under different scenarios.

9. BACKGROUND PAPERS

None.