

# A. Medium term Financial Strategy (MTFS)

## 1. Executive Summary

The main aims of the financial strategy are to support the priorities of the Authority through self-sufficiency and autonomy through sustainable growth.

In most respects the financial plan for the next five years takes a prudent approach to cost and income change and neither increases nor depletes reserves.

The most significant change in this MTFS is the forecast growing income stream from Qualis, a wholly owned group of companies. The income from Qualis is designed to grow to be significant and to ensure sustainability, certain, allowing a new fiscal approach to evolve.

The MTFS ensures that the Authority continues to take a prudent approach to financial challenges and opportunities with borrowing and reserve balances being very prudent (when compared to other authorities).

## 2. General Economic Outlook

The general economic outlook for the next five-years is marked by a slow recovery from the economic recession of 2008 and increased protectionism in terms of the working of the world economy.

The key impacts of this outlook on the Authority are:

- That general economic growth will remain low, unless there is a specific, political, economic or fiscal stimulus to this growth. An assumption of 1% per annum is assumed.
- That pay and non-pay inflationary pressures will remain low, at 2.5% per annum but due to increased economic uncertainty in 2020/21 the inflation rate is likely to be 3.0%.
- That the cost of money will remain low despite the recent increase in Public Works Loan-Fund Board (PWLFB) rates. The strategy is pegged to current PWLG rates, although available funds from other sources may be marginally cheaper.

The MTFS is modelled on the assumptions indicated above.

## 3. Local Economic Outlook

The local economic outlook is more fully described in the Local Development Plan (LDP) and is not repeated here, other than to note, sustainable housing and business growth has been assumed through the planning period. The good position of the Authority, its rural outlook and its proximity to London and its rail and road links should be noted, and their association with growth.

- That the current discussion with Natural England around air quality and the forest may delay and retard the sustainable housing and business growth predicted with consequence on business rate growth and council tax base growth.

- That the actions of the Authority could stimulate local housing and business growth in future years.
- The MTFS is modelled on the assumptions indicated above.

The MTFS is purposefully linked to the assumptions within the LDP, other than in 2020/21 the current trend in council tax base growth and the current trend in business rate growth for 2020/21 has been used till the position with Natural England has been resolved.

The MTFS reflects the direct and indirect implications of the Authority being more active in the local economy through its wholly owned company, Qualis.

## **4. Costs of Services**

The impact on the cost of services mainly arises from inflation and growth and increases in efficiency and effectiveness.

### **4.1 Inflation**

The assumption around inflation is that it will broadly remain at low and predicted levels of around 2.5% with increased general economic uncertainty meaning that in 2020/21 inflation will run at 3.0%.

It is also assumed that the underlying drivers for pay and non-pay will move closely together at 3.0% for 2020/21 and 2.5% for the years after that. It is appreciated that scarcity and demand may influence defined groups of staff and/or items of consumption and this variability will need to be accommodated with the plan.

This accommodation sees the same overall headline figures used for pay and non-pay headings but in practice for each year in question a proportion of inflation is applied to each budget line and amount is assumed spent but is deployed to individual staff and non-staff pressure points as required.

It is also recognised that certain economic drivers may impact items that do not move with either the Consumer Price Index (CPI) or the Retail Price Index (RPI). An example of this is the price of recycled material which has dropped significantly, and this would impact on the cost of our waste collection contract.

Individual contracts that are significant in size and/or several years in duration have specific inflation adjustment, normally linked to the CPI or RPI index. The only such contracts that are taken of account of in the MTFS are the Leisure Services and Waste Collection contracts.

### **4.2 Growth**

Growth is assumed at the steady and sustainable rate of no less than 1% for the following five years as is set out in the LDP and verified by recent trends in housing and business growth.

Growth has both an overall effect on the Authority's services and specific impacts, e.g. waste collection, demand for social housing. There are services that will not be directly impacted by growth but will need to become more efficient to deal with this pressure, e.g. corporate services.

In formulating individual budget adjustments, note is taken of evidenced demand pressures and contract requirements.

### **4.3 Efficiency, Effectiveness and Economy**

Improvements in technology and the approach to simple and reliable processes should ensure a year on year improvement in the efficiency of services with no negative impact on service quality.

Commonly in the public sector, efficiency improvements are set at around the 3% level, especially if financial performance is not already at the upper quartile.

It is recognised that improvements in efficiency where the benefit totally stays in the service to meet inflation and growth costs for example, work better than efficiency savings where significant amounts of money are removed and redeployed.

It is intended that in 2020/21 financial benchmarks with similar authorities are established and a move (if necessary) towards upper quartile financial performance for services is planned. At this point specific efficiency savings targets by service can be set.

For the MTFS an efficiency target of 0.50% has been set per annum for all services. This target can include income generation schemes and 0.25% as a minimum need to be generated by staff savings.

## **5. Income**

Most of the income raised by the Authority comes from local sources and the last payment of central grant support from Government came in 2018/19. It should be noted that the Government do determine, currently, the system, rules and limits that apply to; council tax increases, business rates, housing rentals and other specified fees.

### **5.1 Housing Rents**

Housing rents increase by a set formula based on CPI with the option of raising rents by a further 1%. The Budget and the MTFS assume that rents will rise solely with CPI and the option to raise them by a further 1%. In 2020/21 the increase is 2.7% and in the years after that 2.5%.

### **5.2 Parking Charges**

There is no increase in parking charges assumed for 2020/21 pending the outcome of the Car Parking Review. For subsequent years, car parking charges are expected to rise in line with inflation.

### **5.3 Other Fees and Charges**

Other fees and charges are expected to rise in line with inflation, i.e. 3.0% in 2020/21 and 2.5% in the years that follow.

It should be noted that it is several year's since service fees for rental properties have been fully calculated. It is intended to calculate these fees in 2020/21 and for now the MTFS assumes that the review of these charges is neutral.

### **5.4 Business Rates**

The mechanism for business rates is determined by Government. For the sake of the MTFS model the approach is considered consistent throughout the period with rates increasing in line with target inflation, i.e. just 2.0%.

It should be noted however that the Government have indicated that the Business rate system may be subject to review in a year's time, essentially to reflect pressures on the high street that arise from on-line retailing. It is probable that any change to business rates to benefit companies will result in reduced revenues to the Authority but that these reduced revenues will be made up from other Government sources.

Caution should also be expressed that a review of business rates may have an overall neutral impact but may be further redistributive in moving resource from affluent areas to those requiring a further economic stimulus.

### **5.5 Business Rates Growth Incentive**

The mechanism is designed to reward Authorities who enable and support business growth. The mechanism however only gives the Authority a proportion of the benefit of this growth. Although it is possible for the mechanism to be reviewed and changed, it is likely that an incentive will remain to stimulate business growth in view of its importance to the UK economy.

### **5.6 Other Grants and Sources of Income**

The Authority bids for and receives a variety of small grants and benefits occasionally from bids to funds and foundations such as the National Lottery Fund. For the purpose of this MTFS these income sources are expected to stay the same but increased attention to non-Governmental income sources is intended.

### **5.7 Council Tax Base**

The Authority benefits from a year on year growth in the council tax base because of new dwellings and/or the division of existing dwellings. The rate of increase in council tax base is also a result of prior year council tax increases.

The MTFS assumes that council tax base increases as in previous years but that this growth may be accentuated by the cessation of the Natural England concerns about growth and the impact of Qualis.

### **5.8 Council Tax Increase**

The broad assumption in the plan is that council tax increases will rise with inflation. In 2020/21 the council tax increase is pegged at half the forecast inflation increase at 1.5%.

In future years council tax increase may not be required as alternative sources of income from Qualis increase and are sustained. This approach may be signalled in next year's MTFS when the success of Qualis can be more fully gauged.

### **5.9 Qualis**

The Qualis group of companies were set-up in October 2019. The group currently consists of; a holding company, a development company, a company to manage privately rented property and a company to deliver support services, (in the first instance housing maintenance).

The authority is forecast to make a return on its initial and subsequent investment in the Qualis group of companies by;

- Benefiting on the interest margin of working capital loans provided to Qualis.
- Benefiting on the interest margin of asset purchase loans provided to Qualis.

- Benefiting on the interest margin of construction finance loans provided to Qualis.
- Profit on the provision of corporate services and rented space to Qualis.
- Return by means of dividend, on Qualis activities, e.g. development sales, private residential lets and maintenance services.

Although some risk is associated with this investment, most loans are secured against assets and constructed buildings. In addition, the Authority will have open book working with Qualis as well as exercising normal shareholder control over the Qualis Group.

Income from Qualis is forecast from 2020/21 and within a decade it is possible that income from this source may reach council tax income levels. For the next three years, to allow Qualis to establish itself and for development income to flow, EDFC are only assuming 50% of the predicted benefit will flow to the Authority to be prudent.

## 6. Reserves

The Authority's approach to using and replenishing reserves is not intended to change for this MTFS period. The current policy is to keep usable reserves of 25% in respect of the General Fund that could be used to meet the running costs of services for 3 months. This would mean that usable reserves of £5.3m will need to be retained. The current balance on reserves is £6.7m.

The Authority will also maintain its approach to using recurrent funding underwrite its Continuous Service Budgets and non-recurrent income to fund ad hoc or time defined projects through the District Development Fund.

The current useable reserve balances are as follows:

GF Reserve	£6,697k
HRA Reserve	£2,316k
Earmarked Reserves	£19,092k
Capital Reserve	£9,781k
MRR	£9,125k
Capital Grants (applied)	£687k
<b>TOTAL</b>	<b>£45,931k</b>

## 7. Loans

The Authority has a strong balance sheet and wishes to keep this though in the future, to success and development of Qualis by means of taking loans and granting them at a premium to Qualis.

Loans given will be heavily secured and risk priced, which will also eliminate concerns around Qualis receiving “state aid”.

It is envisaged that over a three-year period the loan exposure to Qualis will be as follows:

- £3m working capital loan, duration 5 years, risk priced interest rate of three times Public Sector Works Loans Fund Board rate.
- £30m of market asset purchase loan, duration 30 years, risk priced interest rate of two times Public Sector Works Loans Fund Board rate.
- £110m of market asset purchase from EFDC and construction loans, duration 30 years, risk priced interest rate of two times Public Sector Works Loans Fund Board rate.

## 8. Risk and Sensitivity Analysis

The MTFS has been the subject to an overall consideration of risk and sensitivity and is considered both robust and realistic. A summary of the risks and how they are managed is shown below:

Risk	Management Action
Increased inflation pressures	Initially met from a 1% contingency set aside. Slowing down agreed developments. After that temporarily covered by reserves whilst additional efficiency savings confirmed.
Increased demand pressures	Initially met from a 1% contingency set aside. Slowing down agreed developments. After that temporarily covered by reserves whilst additional efficiency savings confirmed.
Shortfall in efficiency savings	Ensure initial plan is an over-plan, identifying savings for two years. Bring forward following years schemes and cover with contingency and general reserves as necessary.
Major changes in Government business rates or council tax approach	Unlikely without a year’s notice and initially covered by reserves whilst a new MTDS is produced and appropriate charge and tax rates set.
Delays in Qualis delivering real additional income	Qualis earnings for year one and two are set at prudent levels and are more certain because of the nature of activities undertaken.

## 9. Other Key Financial Issues

The other major issue that the MTFS needs to accommodate is the appropriate legislative and evidenced separation between Housing Resource Account (HRA) items and general account (GA) items.

The separation is ensured by an appropriate review of all accounting classifications and recharges once a year before the final Budget is formulated. This approach is subject to review and audit.

**10. Overall MTFS Model**

	2020/21	2021/22	2022/23	2023/24	2024/25
	£0	£0	£0	£0	£0
<b>Income</b>					
Rents, fees and charges	85,554	87,693	89,885	92,132	94,436
Business rates	14,468	14,757	15,053	15,354	15,661
Business rate growth incentive	0	0	0	0	0
Council tax	12,203	12,546	12,779	13,018	13,247
Other grants and income sources*	2,789	2,845	2,901	2,959	3,019
Return to reserves of undrawn DDF	-2,000	0	0	0	0
From and (too) reserves	-2,785	-601	-1,119	-1,625	-2,104
<b>Total Income</b>	<b>110,229</b>	<b>117,240</b>	<b>119,499</b>	<b>121,838</b>	<b>124,259</b>
<b>Spend</b>					
General and HRA	107,754	113,412	117,410	119,708	122,087
Developments less Qualis contribution	-1,094	2,000	2,000	2,000	2,000
Increase in Debt Servicing Costs	677	694	711	729	747
Contingency to be used, inflation and general and Qualis start up optimism bias assessment	2,892	1,134	622	599	575
<b>Total Spend</b>	<b>110,229</b>	<b>117,240</b>	<b>119,499</b>	<b>121,838</b>	<b>124,259</b>
<b>Variance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>