

## Appendix C

### Medium Term Financial Plan 2016/17 to 2018/19

#### Main Assumptions, Outstanding Matters and Potential Risk Issues

- Table 1 below shows the Medium Term Financial Plan (MTFP) for 2016/19 before the use of reserves:-

**Table 1: Medium Term Financial Plan 2016/19**

	Budget 2015/16 £000	Forecast 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000
<b>Net Cost of Services</b>	17,603	17,385	17,723	18,049
Corporate Income and Expenditure	(2,044)	(1,977)	(1,855)	(1,748)
<b>BUDGET REQUIREMENT</b>	<b>15,559</b>	<b>15,408</b>	<b>15,868</b>	<b>16,301</b>
Funding	(13,190)	(12,436)	(11,662)	(11,029)
<b>Net Shortfall / (Surplus)</b>	<b>2,369</b>	<b>2,972</b>	<b>4,206</b>	<b>5,272</b>

- The key assumptions on which the MTFP 2016/19 have been prepared are as follows:-

#### **General Issues**

- Business Rates Retention** – The assumption on retained business rates is that the Council's share will grow broadly in line with inflation; there is no assumption on Taxbase growth primarily as a result of the volume of outstanding appeals on existing ratable properties.

	2016/17 £000	2017/18 £000	2018/19 £000
Business Rates Retained	3,747	3,855	3,984

- Business Rates – Payment of Levy** – As a result of the above assumption it is predicted that the Council will have an ongoing obligation to pay a levy to Central Government as our share of business rates income is above the Government's baseline:

	2016/17 £000	2017/18 £000	2018/19 £000
Business Rates – Levy Payment	338	347	358

- Revenue Support Grant** funding – Whilst there is current uncertainty pending the Autumn Spending Review, it is expected that austerity measures will continue in the medium term and that RSG will continue to reduce from 2016/17 at a similar rate as in previous years:-

	2016/17 £000	2017/18 £000	2018/19 £000
Revenue Support Grant	2,866	1,995	1,190

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- d) **Efficiency Support Grant funding** – For the purposes of the Medium Term Financial Plan, the former Efficiency Support Grant is now ‘rolled’ into the Council’s Start Up Funding Assessment with effect from 2015/16 and subject to ongoing reductions as part of Revenue Support Grant outlined in (c) above.

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Efficiency Support Grant – for info only – now forms part of RSG above	1,026	752	518	302

### e) New Homes Bonus Allocations

As Councillors will be aware, the New Homes Bonus (NHB) has become a significant source of income for local authorities, particularly those that are delivering new build housing. The Council will receive £952k in 2015/16 comprising £714k funding for the period up to 2014/15 plus an additional £238k for New Homes/Empty Properties brought into use between October 2013 and October 2014.

Looking ahead, on the basis of new housing delivery to date in Pendle along with work on bringing empty homes back into use, it has been assumed that an amount of £50k pa will be generated in additional NHB annually. The likely level of NHB in the period to 2018/19, subject to there being no change in the distribution of the funding, is as summarised in Table 6 below:-

**Table 6: Estimate of New Homes Bonus Funding Payable to Pendle**

Year	Use of Funding Received	Actual Funding 2015/16 £000	Estimated Funding 2016/17 £000	Estimated Funding 2017/18 £000	Estimated Funding 2018/19 £000
1	Base Budget Funding	101	101		
2	Base Budget Funding	92	92	92	
3	Base Budget Funding	179	179	179	179
4	Base Budget Funding	342	342	342	342
5	Base Budget Funding	238	238	238	238
6	Base Budget Funding		50	50	50
7	Base Budget Funding			50	50
8	Base Budget Funding				50
	<b>New Homes Bonus (Est)</b>	<b>952</b>	<b>1,002</b>	<b>951</b>	<b>909</b>

With effect from 2015/16, **all NHB funding will be used in support of the Council’s Base Budget.**

- f) For financial planning purposes **Council Tax** is assumed to increase by 1.99% pa over the period to 2018/19.
- g) **Localisation of Support for Council Tax (LCTS)** – Councillors approved the LCTS Scheme for 2015/16 at the Council Meeting on 18<sup>th</sup> December 2014. It was agreed that support for Council Tax would be provided at a maximum of 80% of the Council Tax liability subject to eligibility.

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For the purposes of planning the budget for 2016/17, it is currently assumed that there will be no change to the above although this will be maintained under review.

- h) **Technical Changes to Council Tax** – No further changes to discounts/exemptions are assumed at this stage but this will be maintained under review as part of the Council's budget planning for 2016/17;
- i) A **Pay award** of 1% has been assumed in each year over the life of the MTFP.
- j) No provision for **Staff Turnover** is assumed in any year of the Medium Term Financial Plan at this stage;
- k) For 2016/17 the Council's **Employers' pension contribution rate** is as determined in the 2013 valuation of the Lancashire Pension Fund. This set contribution levels for three years up to March 2017. The next fund valuation will take place as at 31<sup>st</sup> March 2016 and set rates for three years from 1<sup>st</sup> April 2017. Employer contributions are expected to remain a combination of a fixed cash contribution for the past deficit on the Council's share of the Pension Fund (est. at £1.352m for 2016/17) plus a variable contribution (12.2%) based on the Council's salary base.
- l) **National Insurance Contributions** – The Government will implement changes to the National Insurance regime associated with local government pensions with effect from 2016/17. The impact of this is to add c£88k additional costs to Employers National Insurance contributions from that year onward;
- m) **Robustness of Fees and Charges** – General fees and charges are assumed to increase in line with inflation (2.5% for the purposes of the MTFP) but will be subject to annual review as part of the development of the budget in each year;
- n) **Council Tax Collection** – Reflecting Council Tax collection performance in recent years, it is assumed at this stage that there is a surplus on the Collection Fund for distribution to Pendle and the Major Preceptors over the life of the MTFP. This position is reviewed annually. The current assumptions for Pendle's share of the surplus is as follows:

	2016/17 £000	2017/18 £000	2018/19 £000
Council Tax – Collection Fund Surplus (Pendle)	250	100	0

- o) **Business Rates Collection** – At this stage, a neutral position is assumed for business rates collection with neither a surplus nor a deficit projected. The business rates retention scheme remains relatively new and the volume of outstanding appeals makes forecasting particularly problematic.

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- p) A **Revenue Contribution to Capital** of £100k is to be made over the life of the MTFP representing a contribution towards the capital cost of improvements to the Council's own properties, particularly where these are required on grounds of health and safety. This is funded directly from reserves.

- q) **Net Contributions from reserves are as shown in the table below:-**

	2016/17 £000	2017/18 £000	2018/19 £000
Use of Reserves	1,502	1,430	1,100

- r) **Capital Programme** – A summary of the Medium Term Capital Programme is provided at [Appendix D](#) of this report. Given the significant reduction in capital resources, it is not possible to provide funding for all commitments/known policy issues and therefore resources have been targeted to Council priorities. In the context of the General Fund Revenue Budget, it is essential that the agreed Capital Programme remains prudent, sustainable and affordable. Ultimately, this may mean the level of borrowing assumed in the Base Budget for 2016/17 and subsequent years may have to be scaled back;

### **Specific Service Related Matters**

- a) **Core Strategy** – There is currently no base budget provision for the examination/inquiry into the Core Strategy but a specific reserve has been established to meet any costs that might arise. The budget for 2015/16 assumes that £100k of the reserve will be used during the year although this is subject to progress with the Strategy. The forecast balance on the reserve as at 31/3/16 is £152k;
- b) **Development Control Fees** – No locally determined fees regime has been assumed for Development Control fees. The medium-term plan currently assumes no variation in fee income levels from the £320k budgeted in 2015/16;
- c) **Land Charges** – The Government is still assessing the scope and role of the Land Registry in dealing with land charges. The specific implications of this and whether it will actually result in changes for the Council are not yet confirmed but it remains a matter which may have budgetary implications for the Council;
- d) **Treasury Management Issues**
- **Investment Income** – The Executive will be aware that, as part of the strategy to lift the economy out of recession, the Bank of England pursued an aggressive policy of reducing interest rates. The Bank Rate has remained at 0.5% since March 2009. This has a direct impact on the Council's General Fund Revenue Budget insofar as interest rates on the Council's investments are generally reflective of the Bank Rate.

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As the number of external funding streams continues to reduce and the capital programme unwinds it is expected that surplus cash resources will start to diminish. This, combined with the continuing low interest rate environment, means that investment returns are likely to remain relatively depressed with the preservation of security and adequate liquidity taking priority. Investment returns of 0.75% rising to 1% have been assumed over the plan period;

- **Minimum Revenue Provision (MRP)** – This is the budget the Council must set aside annually for the repayment of debt. In recent years, MRP has been depressed both by the amount of slippage on the Council's Capital Programme and also the policy of applying all available capital cash resources to capital expenditure before incurring the need for debt. As the amount of slippage on the Capital Programme is diminishing and given the reduction in capital cash resources, debt will grow over the medium term resulting in higher MRP charges;
  - **Debt Interest** – Post the financial downturn and prior to 2014/15 the Council mainly used internal borrowing to finance capital expenditure as opposed to external borrowing. This was in recognition of the low investment returns on offer compared with the cost of borrowing externally. However, as the latter fell during 2014/15, significant external borrowing was taken from the PWLB. As a result of this and the further borrowing still required to fund the Council's capital programme, the plan reflects the associated increase in interest costs.
- e) **Pendle Leisure Trust** – the sustainability of the Leisure Trust remains an issue and the Trust's cost base is continually under pressure. Given the scale of savings required by the Council over the plan period there will be a need to look closely at the affordability of the Trust's activities in the context of the Council's own corporate priorities. Whilst the current payment to the Leisure Trust of £1.880m is assumed to remain unchanged over the life of the plan this is subject to any budget reduction measures the Council may choose to implement;
- f) **Council Tax Benefit & Housing Benefit Administration Subsidy** – For 2015/16, the Council will receive £615k from the Government for the administration of benefits split £130k (C Tax) and £485k (HB). The planning assumption is for a year on year reduction of 10% in both funding streams. In due course it is expected that Housing Benefit Administration will not be required once Housing Benefit is fully incorporated within the Universal Credit.
- g) **Universal Credit** – The ongoing development and roll-out of the Universal Credit will have implications for the Council. In particular, Housing Benefit will be subsumed within the Universal Credit which will be provided by the Department for Work and Pension. If this is the case, the Council will need to review its present arrangements with Liberata.

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- h) **County-wide review of waste collection arrangements** – the Council currently receives £693k per annum under a cost sharing agreement with the County Council. This arrangement is due to end in March 2018. A county-wide review of the current collection arrangements is to take place prior to the expiry of the agreement and for planning purposes no change in funding is currently assumed for 2018/19.
  - i) **Other Budget Growth** – As indicated above, the MTFP only includes budget growth approved to date. There is currently no provision for additional growth either as a result of any statutory matters or specific service improvements. It will be important as part of the review of the Council's Strategic Plan to ensure that any additional cost pressures are identified as early as possible and factored into the MTFP;
3. The Executive should appreciate that these assumptions are subject to change as the development of the budget progresses and more information becomes available. In view of this, the MTFP will be updated continuously and reported to Management Team and the Executive as and when it is appropriate to do so.