Appendix B

Medium Term Financial Plan 2017/18 to 2019/20
Main Assumptions, Outstanding Matters and Potential Risk Issues

1. Table 1 below shows the Medium Term Financial Plan (MTFP) for 2017/20 before the use of reserves:-

Table 1: Medium Term Financial Plan 2017/20

	Budget 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000
Net Cost of Services	16,655	17,033	18,183	18,543
Corporate Income and Expenditure	(2,205)	(2,024)	(1,462)	(1,428)
BUDGET REQUIREMENT	**14,450**	**15,009**	**16,721**	**17,115**
Funding	(12,180)	(11,304)	(11,582)	(11,205)
Net Shortfall / (Surplus)	**2,270**	**3,705**	**5,139**	**5,910**

2. The key assumptions on which the MTFP 2017/20 have been prepared are as follows:-

General Issues

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

	2017/18 £000	2018/19 £000	2019/20 £000
Business Rates Retained	3,666	3,774	3,895

b) ***Business Rates – Payment of Levy*** – As a result of being in the Lancashire Business Rates pool no levy obligation is assumed – any levy payment that would have been paid to Government will be retained locally and shared 90% (Pendle) and 10% (County Council). Decisions on whether to remain in the Pool will be taken annually. At this stage no account has been taken of the proposed reforms of NNDR and the Government's intentions for 100% of business rates to be retained locally by 2019/20.

c) **Revenue Support Grant** funding – the MTFP reflects the allocations outlined in the final local government finance settlement for 2016/17:-

	2017/18 £000	2018/19 £000	2019/20 £000
Revenue Support Grant	2,210	1,707	1,145

d) **New Homes Bonus Allocations**

The Government is consulting on technical reforms to the New Homes Bonus regime. Currently the MTFP reflects allocations set out in the final local government finance settlement for 2016/17. These will be updated once the consultation outcomes have been announced.

	2017/18 £000	2018/19 £000	2019/20 £000
New Homes Bonus	1,104	693	665

With effect from 2015/16, ***all NHB funding has been used to support of the Council's Base Budget***.

e) For financial planning purposes ***Council Tax*** is assumed to increase by £5 per annum over the period to 2019/20. This is the maximum permitted increase for District Councils without the requirement to hold a referendum.

f) ***Localisation of Support for Council Tax (LCTS)*** – Councillors approved the LCTS Scheme for 2016/17 at the Council Meeting in December 2015. It was agreed that support for Council Tax would be provided at a maximum of 80% of the Council Tax liability for working age claimants subject to eligibility.

For the purposes of planning the budget for 2017/18, it is currently assumed that there will be no change to the above although this is subject to a separate review as part of the wider development work on the budget for next year.

g) **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 2017/18;

h) A ***Pay award*** of 1% has been assumed in each year over the life of the MTFP.

i) No provision for ***Staff Turnover*** is assumed in any year of the Medium Term Financial Plan at this stage;

j) For 2017/18 the Council's ***Employers' pension contribution rate*** will be determined by the outcome of the 2016 valuation of the Lancashire Pension Fund. This will set contribution levels for three years up to March 2020. Pending the outcome of this valuation the 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 (£1.352m in 2016/17) plus a variable % contribution (12.2% in 2016/17) based on the Council's salary base. For the MTFP the former is assumed to increase by 4.1% per annum and the latter by 1% to 13.2% for the Plan period.

k) ***National Insurance (NI) Contributions*** – The plan reflects known changes in the NI framework as at April 2016.

l) ***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;

m) ***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 position on Business Rates (NNDR) is not favourable and the plan assumes a significant deficit in 2017/18 arising from actual performance in 2015/16. The business rates retention scheme remains problematic to predict notably as a result of outstanding business rates appeals. The current assumptions for Pendle's share of each element is as follows:

	2017/18 £000	**2018/19 £000**	**2019/20 £000**
Council Tax – Collection Fund Surplus (Pendle)	(200)	(100)	0
NNDR – Collection Fund Deficit (Pendle)	612	0	0

n) 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.

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

	2017/18 £000	**2018/19 £000**	**2019/20 £000**
Use of Reserves – Specific	666	100	100
Use of Reserves – Budget Support	1,520	1,230	1,000

p) ***Capital Programme*** – A summary of the Medium Term Capital Programme is provided at **Appendix C** 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 2017/18 and subsequent years may have to be scaled back;

Specific Service Related Matters

a) ***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 2016/17;

b) **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 and when it will result in changes for the Council are not yet confirmed but it remains a matter which may have budgetary implications for the Council;

c) ***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.

  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% (17/18) rising to 1.25% by 2019/20 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; the MRP charge is projected to increase from £435k in 2016/17 to £653k by 2019/20.

- ***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.

d) ***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 £1.576m is assumed to remain unchanged over the life of the plan this is subject to a detailed review in 2016/17 as part of the wider review of saving options over the Plan period. The £60k growth is 2016/17 for the Blues Festival is assumed to fall-out of the budget in 2017/18.

e) **Council Tax Benefit & Housing Benefit Administration Subsidy** – For 2016/17, the Council will receive £531k from the Government for the administration of benefits split £143k (C Tax) and £388k (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.

f) ***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.

g) ***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 has been instigated and for financial planning purposes this income has been removed in full from 2018/19. This has a significant impact on the Council's net cost of services in that year.

h) ***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.