Appendix B

Medium Term Financial Plan 2018/19 to 2020/21
Main Assumptions, Outstanding Matters and Potential Risk Issues

1. Table 1 below shows the Medium Term Financial Plan (MTFP) for 2018/21 before the use of reserves in each year:-

Table 1: Medium Term Financial Plan 2018/21

	Budget 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000
Net Cost of Services	15,290	15,619	15,988	16,549
Corporate Income and Expenditure	(1,836)	(1,143)	(882)	(807)
BUDGET REQUIREMENT	**13,454**	**14,476**	**15,106**	**15,742**
Funding	(11,549)	(11,676)	(11,362)	(11,381)
Net Shortfall / (Surplus)	**1,905**	**2,800**	**3,744**	**4,361**

2. The key assumptions on which the MTFP 2018/21 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 also an assumption of a modest surplus on the business rates part of the Collection Fund based on actual performance in 2016/17.

	2018/19 £000	2019/20 £000	2020/21 £000
Business Rates Retained	3,666	3,798	3,893
Collection Fund – Share of surplus	100	100	100

b) ***Business Rates – Payment of Levy to DCLG*** – 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 are 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 as the timing and implications of this remain uncertain.

c) ***Revenue Support Grant funding*** – the MTFP reflects the allocations up to 2019/20 as outlined in the four-year funding offer from Government in 2016/17:

	2018/19 £000	2019/20 £000	2020/21 £000
Revenue Support Grant	1,707	1,145	900*

The expectation by 2020/21 is that no RSG will be payable with this assumed to be rolled up in funding allocated via the 100% local retention of business rates.

d) **New Homes Bonus Allocations**

Allocations reflect the cumulative effect of allocations paid in respect of previous years (for a 4 year term) with only modest 'new' allocations in each year following the implementation of a baseline threshold below which no Bonus is payable.

	2018/19 £000	2019/20 £000	2020/21 £000
New Homes Bonus – previous years	475	286	190
New Homes Bonus – new in year	50	40	30
New Homes Bonus – Total	**525**	**326**	**220**

All NHB funding is used to support of the Council's base budget.

e) For the purposes of financial planning only, ***Council Tax*** is assumed to increase by the maximum permitted for District Councils each year without the requirement to hold a referendum (i.e. the higher of £5 or 1.99%).

f) ***Localisation of Support for Council Tax (LCTS)*** – Councillors approved the LCTS Scheme for 2017/18 at the Council Meeting in December 2016. It was agreed that support for Council Tax would be retained 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 2018/19, it is currently assumed that there will be no change to the above although this may be subject to 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 2018/19;

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) The Council's ***Employers' pension contribution rate*** has been determined by the outcome of the 2016 valuation of the Lancashire Pension Fund. This has set contribution levels for three years up to March 2020. Employer contributions remain based on a combination of deficit payments (a fixed cash lump sum) plus a % contribution for future service. The respective elements in the Plan are as follows:

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Past Service Deficit Lump Sum*	1,220	1,212	1,204	1,250
Future Service % payment**	787	797	808	897
Total Payment to Fund	**2,007**	**2,009**	**2,012**	**2,147**

* Reflects amounts due based on the pre-payment in full to the Fund during 2017/18 for the first three years;

** Rate is 15.5% for the first three years. Both amounts shown for 2020/21 are estimates at this time and will be confirmed when the next Fund valuation takes place on 31st March 2019.

k) ***National Insurance (NI) Contributions*** – The plan reflects known changes in the NI framework at the time of preparation.

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*** – A collection rate of 96% in line with actual performance in recent years. The council tax base is assumed to grow by 0.75% per annum. It is also 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 assumption for Pendle's share is as follows:

	2018/19 £000	2019/20 £000	2020/21 £000
Council Tax – Collection Fund Surplus	(200)	(150)	(150)

n) ***Revenue Contribution to Capital*** – the Plan assumes no further revenue contributions towards the capital cost of improvements to the Council's own properties. The reserve which funded these contributions will be fully used during 2017/18.

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

	2018/19 £000	2019/20 £000	2020/21 £000
Use of Reserves – Specific	0	0	0
Use of Reserves – Budget Support	1,400	1,000	500

The above use of the Budget Support Reserve will leave the balance on the reserve as at 31/3/21 at NIL – however, the reserve will be depleted earlier than this if the required level of savings is not achieved each year of the plan.

p) ***Capital Programme*** – 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 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 2018/19 and subsequent years may have to be scaled back;

Specific Service Related Matters

a) ***Development Control Fees*** – No additional income (or costs) have been included in respect of the potential increase in charges nationally of 20% - the Council opted in to the Government's scheme of changes for planning fees earlier this year but the timescales are now uncertain following the decision to hold a General Election. Under the scheme as proposed any additional income would have to be re-invested in the service.

b) **Land Charges** – The timescales for when aspects of local authority land charges activity will transfer to the Land Registry remains uncertain – hence 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 Bank Rate now stands at 0.25% with little sign of any upward movement in the near term. 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 slippage on the capital programme unwinds our surplus cash resources will start to diminish. This combined with recent decisions such as the prepayment of 3 years of pension contributions means that investment income is likely to remain relatively suppressed. The preservation of security and adequate liquidity remain our priorities. Investment returns of 0.5% (18/19) rising to 1% by 2020/21 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 suppressed 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, capital cash resources are declining combined with recent decisions on property acquisitions the level of MRP is projected to increase over medium term; the MRP charge is projected to increase from £493k in 2017/18 to £806k by 2020/21.

- ***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 required to fund the Council's approved capital programme, the plan reflects the associated increase in interest costs.

d) ***Pendle Leisure Trust*** – the financial 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 is 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 £1.426m is assumed to remain unchanged over the life of the plan this is subject to a detailed review in 2017/18 as part of the wider review of saving options over the plan period.

e) **Council Tax Benefit & Housing Benefit Administration Subsidy** – In 2017/18, the Council will receive £495k from the Government for the administration of benefits split £140k (Council Tax) and £355k (Housing Benefit). 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 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. In preparation for this the Council will need to review its present arrangements with Liberata.

g) ***County-wide review of waste collection arrangements*** – the Council currently receives £759k per annum under arrangements with the County Council. These are due end on 31st March 2018. Pending a resolution of county-wide proposals for the service going forward 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*** – The MTFP only includes budget growth approved to date with 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 will 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.