Appendix D

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:-

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	15,293	15,521	16,139
Corporate Income and Expenditure	(1,836)	(1,208)	(764)	(685)
BUDGET REQUIREMENT	**13,454**	**14,085**	**14,757**	**15,454**
Funding	(11,549)	(12,014)	(11,480)	(11,451)
Net Shortfall / (Surplus)	**1,905**	**2,071**	**3,277**	**4,003**

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 no assumption on tax base growth primarily as a result of the volume of outstanding appeals on existing ratable properties. No account has been taken at this stage of any further adjustment that the Government may make to our Tariff payment arising from the 2017 Revaluation. We are projecting a surplus in the current year on the collection of business rates of c£1.1m and our share of this at 40% is reflected in the Plan as follows (excludes S31 grant income):

	2018/19 £000	2019/20 £000	2020/21 £000
Business Rates Retained	3,968	3,930	4,026

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 are taken annually. Our Pool membership for 2018/19 was confirmed in late October. 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 2020/21.

c) **Revenue Support Grant** funding – the MTFP reflects the allocations outlined in the Government's four year funding offer issued in 2016/17 save for 2020/21 which is an internal estimate:-

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

d) **New Homes Bonus Allocations**

Following the changes made by Government to the Bonus regime last year the level of New Homes Bonus we receive is forecast to drop significantly over the Plan period as shown below:

	2017/18 £'000	2018/19 £000	2019/20 £000	2020/21 £000
New Homes Bonus	1,004	475	236	100

Since the 2015/16 Budget all NHB funding has been used to support the Council's Base Budget.

e) For financial planning purposes ***Council Tax*** is assumed to increase by £5 per annum over the period to 2020/21. The greater of £5 or 1.99% currently represents the maximum permitted increase for District Councils unless supported by a referendum.

f) ***Localisation of Support for Council Tax (LCTS)*** – No change is proposed to the maximum level of support for working age claimants in the Council's scheme for 2018/19 – subject to approval this will remain at 80%.

g) **Technical Changes to Council Tax** – the proposed council tax base for 2018/19 assumes the continuation of the former Class C discount of 100% for 4 weeks as introduced in this year. No other changes are proposed. No account has been taken of the Chancellors Budget announcement to allow Councils to levy a premium of 100% on long-term empty properties. For the years after 2018/19 the MTFP currently assumes an annual increase in the tax base of 0.75%.

h) A ***Pay award*** of 1% has been assumed in each year of the MTFP. However, at the point of finalising this report the Local Government Employers had made an offer on pay equivalent to 2% per annum for 2 years from 2018/19. **This is not currently built in to the MTFP. The additional cost of this is estimated at c£50k in 2018/19 and £100k per annum thereafter.**

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

j) For 2018/19 the Council's ***Employers' pension contribution rate*** is as determined by the 2016 valuation of the Lancashire Pension Fund. This set contribution levels for three years up to March 2020. The current service contribution rate remains at 15.5% for 2018/19 and 2019/20. A rate of 17.5% has been assumed for 2020/21 pending the outcome of the 2019 valuation.

In addition to the current service rate above the Council pays a fixed cash sum with sums of £1.21m, £1.20m and £1.25m factored in for 2018/19, 2019/20 and 2020/21 respectively.

k) ***National Insurance (NI) Contributions*** – The plan reflects current statutory requirements.

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 are 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 forecast to be more favourable than last year and the plan assumes a surplus in 2018/19 arising from actual performance in 2016/17 and 2017/18. 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:

	2018/19 £000	2019/20 £000	2020/21 £000
Council Tax – Collection Fund Surplus (Pendle)	(300)	(200)	(150)
NNDR – Collection Fund Surplus (Pendle)	(250)	(100)	(100)

n) ***Revenue Contribution to Capital*** – no further revenue contributions are assumed over the Plan period as the associated reserve which funds them has been fully used.

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	257	40	40
Use of Reserves – Budget Support	1,100	1,100	700

p) ***Capital Programme*** – A summary of the Medium Term Capital Programme is provided elsewhere on the agenda for this meeting. 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. No 'new' prudential borrowing is assumed over the Plan period following the agreement of the Executive to apply £400k of capital receipts each year in lieu of borrowing.

Specific Service Related Matters

a) ***Development Control Fees*** – No account has yet been taken of the proposed increase of 20% in planning fees as proposed by Government; the regulations permitting this have yet to come in to force; however, any additional income arising from this must be re-invested in the planning service. The medium-term plan currently assumes no variation in fee income levels from the £320k budgeted in 2017/18;

b) **Land Charges** – The proposed transfer of functions to the Land Registry remains on the horizon but the specific implications of this are not yet confirmed; it remains a matter which may have future budgetary implications for the Council.

c) ***Treasury Management Issues***

- ***Investment Income*** – 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 0.5% (18/19) rising to 1.00% 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 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 £432k in 2017/18 to £766k by 2020/21 – part of this links to the acquisition of parts of the ACE Centre and No.1 Market Street, Nelson.

- ***Debt Interest*** – the Council has an underlying need to borrow to fund its capital programme; whilst borrowing has been delayed in the current year this will most likely unwind during next and 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 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 the current year 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 Government for the administration of council tax support (£140k) and housing benefits (£355k). 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. The Council has been advised that the full service Universal Credit will be rolled-out in Pendle in November 2018. In due course all working age benefits will be subsumed within the Universal Credit which will be provided by the Department for Work and Pension. As a result the Council will need to assess the implications of this on its present arrangements with Liberata.

g) ***Cost sharing agreement with Lancashire County Council*** – the Council currently receives income of 760k per annum under the cost sharing agreement with the County Council. Councillors are aware that this arrangement ends on 31st March 2018 and this income has therefore been removed in full from the Plan. Clearly, this has a significant impact on the Council's ongoing net cost of services.

h) ***Other Budget Growth*** – 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 with compensating savings made where growth may be unavoidable due to statutory / regulatory requirements;

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.