

Medium Term Financial Plan 2019/20 to 2021/22

Main Assumptions, Outstanding Matters and Potential Risk Issues

- Table 1 below shows the Medium Term Financial Plan (MTFP) for 2019/22 before the use of reserves in each year:-

Table 1: Medium Term Financial Plan 2019/22

	Base Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
Net Cost of Services	14,931	15,508	16,144	16,905
Corporate Income and Expenditure	(1,442)	(1,445)	(1,185)	(991)
BUDGET REQUIREMENT	13,489	14,063	14,959	15,914
Funding	(12,197)	(12,442)	(12,045)	(12,028)
Net Shortfall / (Surplus)	1,292	1,621	2,914	3,886

- The key assumptions on which the MTFP 2019/22 have been prepared are as follows:-

General Issues

- Business Rates Retention** – The assumption on retained business rates is that the Council's share of income will grow broadly in line with inflation albeit from an improved base position in 2019/20 reflecting the favourable performance in 2017/18; this includes also an assumption of a surplus on the business rates part of the Collection Fund based on actual performance in 2017/18. No account has been taken at this stage of any further adjustments Government may make to our tariff payment in future years such as an adjustment to offset the loss of Revenue Support Grant or as a result of the Baseline Reset that is due to be applied within this MTFP period as there are no details available on which to base a sound judgment.

	2019/20 £000	2020/21 £000	2021/22 £000
Business Rates Retained	4,138	4,220	4,305
Collection Fund – Share of surplus	400	150	150

- Business Rates – Payment of Levy to MHCLG** – 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). The pooling agreement is due to continue into 2019/20 unless an existing pool member gives notice to withdraw. An opportunity has arisen to continue the pooling arrangement under the 75% Business Rates Pilot scheme. Clarification regarding which pooling arrangement will apply in 2019/20 is expected as part of the Provisional Local Government Settlement due to be published imminently.

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- 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 together with provisional estimates in 2020/21 and 2021/22:

	2019/20 £000	2020/21 £000	2021/22 £000
Revenue Support Grant	1,145	900	600

It is possible that the Council could receive no RSG from 2020/21, however the plan maintains a level of RSG on the assumption that an adjustment may be made to the 75% Business Rates Retention Scheme to offset the total withdrawal of RSG.

d) New Homes Bonus Allocations

Allocations reflect the cumulative effect of allocations paid in respect of previous years (for a 4 year term) with no 'new' allocations in each year following the implementation of a baseline threshold of 0.4%, below which no Bonus is payable.

	2019/20 £000	2020/21 £000	2021/22 £000
New Homes Bonus – previous years	250	113	13
New Homes Bonus – new in year	0	0	0
New Homes Bonus – Total	250	113	13

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 2.99% in 2019/20, 2020/21 and 2021/22).
- f) **Localisation of Support for Council Tax (LCTS)** – Councillors approved the LCTS Scheme for 2018/19 at the Council Meeting in December 2017. 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. There is no plan to change the scheme for 2019/20. It is also currently assumed that there will be no change to 2021/22 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** – Elsewhere on this agenda the report setting the Council Tax Base recommends that changes should be made to the premium rate charged on empty dwellings that have been empty for more than 2 years. Currently the MTFP does not reflect the impact of this recommendation if it is approved. No other 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 2020/21;

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- h) A **Pay award** of 2% 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:

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Past Service Deficit Lump Sum*	1,212	1,204	1,250	1,298
Future Service % payment*	749	829	924	993
Total Payment to Fund	1,961	1,960	2,058	2,114

* Estimates only after 2019/20 pending the outcome of the next Fund valuation as at 31st March 2019. Future service % rate is 15.5% in 2018/19 and 2019/20, and estimated at 17% in 2020/21 and 18% in 2021/22 respectively.

- k) **National Insurance (NI) Contributions** – The plan reflects known and projected rates for NI 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 are 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 1% in 2019/20 and 0.75% per annum thereafter. 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:

	2019/20 £000	2020/21 £000	2021/22 £000
Council Tax – Collection Fund Surplus	(375)	(150)	(100)

- n) **Revenue Contribution to Capital** – the Plan assumes no further revenue contributions towards the capital cost of improvements to the Council's own properties as shown in Appendix C of the Development of the Medium Term Capital Programme 2019/20 to 2021/22 report included elsewhere on this agenda.
- o) **Net Contributions from reserves are as shown in the table below:-**

	2019/20 £000	2020/21 £000	2021/22 £000
Use of Reserves – Specific	154	91	84
Use of Reserves – Budget Support	1,100	1,060	650

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The above use of the Budget Support Reserve will leave the balance on the reserve as at 31/3/22 at circa. £180k, however the reserve will be depleted earlier than this if the required level of savings is not achieved each year of the plan and if the assumption currently included on the receipt of RSG does not come about.

- 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. No new prudential borrowing is assumed over the plan period.

Specific Service Related Matters

- a) **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;

b) Treasury Management Issues

- **Investment Income** – The Bank Rate now stands at 0.75% with mixed views amongst market commentators as to the rate and timing of any upward movement. 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 decisions such as the prepayment of 3 years of pension contributions that impacts on our cash flow, means that investment income may remain relatively suppressed. The preservation of security and adequate liquidity remain our priorities. Investment returns of 0.75% (2019/20) rising to 1.25% by 2021/22 have been assumed over the plan period;

Our Treasury Advisors have notified us that the outcome of Brexit and the deal in place when we leave is likely to impact on Treasury Management issues as our Sovereign rating and those of the institutions on the Counterparty list within the Treasury Strategy could be downgraded to a level current not acceptable within our Treasury Management Strategy.

- **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 diminishes and capital cash resources decline, the level of MRP is projected to increase over the

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medium term; the MRP charge is projected to increase from £586k in 2018/19 to £643k by 2021/22.

- **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. As the latter fell during 2014/15, however, significant external borrowing was taken from the PWLB. Currently interest rates are forecasted to rise, therefore borrowing will be undertaken if it is deemed right to do so to maximise the benefit of borrowing at lower rates. Indeed internal borrowing has been replaced by external borrowing in 2018/19 in anticipation of increasing borrowing rates. 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.
 - c) **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. A budget saving of £0.200m to the current payment to the Leisure Trust of £1.3m is recommended within the 2019/20 MTFP and to this end a Strategic Review of services has been approved by Policy and Resources Committee.
 - d) **Council Tax Benefit & Housing Benefit Administration Subsidy** – In 2019/20, the Council estimates to receive £378k from the Government for the administration of benefits split £118k (Council Tax) and £260k (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.
 - e) **Universal Credit** – Pendle area moved to a Universal Credit Full Service (UCFS) in November 2018. It is expected that this will have implications for the Council. In particular, Housing Benefit will be subsumed within Universal Credit which is provided by the Department for Work and Pension. As Full Service has only just been implemented, the rate at which claimants will migrate onto Universal Credit is unknown, therefore the assumption (at (d) above) on the reduction of Housing Benefit remains unchanged.
 - f) **Other Budget Growth** – The MTFP includes 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 going forward;
3. The Committee 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 Committee as and when it is appropriate to do so.