

## Medium Term Financial Plan 2020/21 to 2022/23

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

- Table 1 below shows the Medium Term Financial Plan (MTFP) for 2020/21 to 2022/23 before the use of reserves in each year:-

**Table 1: Medium Term Financial Plan 2020/21/ to 2022/23**

	Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
<b>Net Cost of Services</b>	15,355	16,031	16,770	17,329
Corporate Income and Expenditure	(2,447)	(2,092)	(1,946)	(1,957)
<b>BUDGET REQUIREMENT</b>	<b>12,908</b>	<b>13,939</b>	<b>14,824</b>	<b>15,372</b>
Funding	(11,664)	(11,537)	(11,247)	(11,321)
<b>Net Shortfall / (Surplus)</b>	<b>1,244</b>	<b>2,402</b>	<b>3,577</b>	<b>4,051</b>

- The key assumptions on which the MTFP 2020/21 to 2022/23 have been prepared are as follows:-

#### **General Issues**

- Business Rates Retention (BRR)** – In previous MTFP's the assumption on retained business rates is that the Council's share of income will grow broadly in line with inflation. From 2019/20, however, Revenue Support Grant has been rolled into BRR which has a reducing trajectory therefore the estimated level of BRR to be received is a net reduction over the period of the MTFP.

It is important to note that these estimate are very uncertain up until the publication of the 2019/20 Spending and Fair Funding Reviews as there is no information available on which to base the budget assumptions on.

This also includes an assumption on potential surpluses on the business rates Collection Fund based on actual performance in previous years.

	2020/21 £000	2021/22 £000	2022/23 £000
Business Rates Retained	4,312	4,124	3,939
Collection Fund – Share of surplus	300	100	100

- 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. In 2019/20 contributions will be made into two Lancashire Funds based on a percentage of the additional levy retained resulting from the conversion of the pooling agreement to a 75% Pilot scheme, therefore the retained levy will be shared on the following splits:-

## Appendix C

- 1) **Levy retained equivalent to that achieved under the 2018/19 BRR Pooling Agreement – 100% Pendle**
- 2) **Levy retained under the 75% Pilot scheme over and above that calculated at (1) above – 70% Pendle; 25% Lancashire wide Strategic Economic Growth and Financial Sustainability Fund; 5% Risk Resilience Reserve**

c) **Revenue Support Grant (RSG) funding** – the 2020/21 MTFP reflects that RSG has been rolled into the Business Rates Retention scheme.

### 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 below which no Bonus is payable.

	2020/21 £000	2021/22 £000	2022/23 £000
New Homes Bonus – previous years	255	155	142
New Homes Bonus – new in year	0	0	00
<b>New Homes Bonus – Total</b>	<b>255</b>	<b>155</b>	<b>142</b>

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 at 2.99%.
- f) **Localisation of Support for Council Tax (LCTS)** – Councillors approved the LCTS Scheme for 2019/20 at the Council Meeting in February 2019. 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 2020/21, 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 2020/21.
- 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:-

## Appendix C

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Past Service Deficit Lump Sum*	1,204	1,204	1,250	1,299
Future Service % payment*	756	830	913	983
<b>Total Payment to Fund</b>	<b>1,959</b>	<b>2,034</b>	<b>2,163</b>	<b>2,282</b>

\* Estimates only after 2019/20 pending the outcome of the next Fund valuation as at 31<sup>st</sup> March 2019.  
Future service % rate is 17% in 2020/21; 18% in 2021/22 and 19% in 2022/23.

- 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 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:-

	2020/21 £000	2021/22 £000	2022/23 £000
Council Tax – Collection Fund Surplus	(300)	(100)	(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.
- o) **Net Contributions from reserves are as shown in the table below:-**

	2020/21 £000	2021/22 £000	2022/23 £000
Use of Reserves – Specific	91	74	-
Use of Reserves – Budget Support	1,060	650	-

The above use of the Budget Support Reserve will leave the balance on the reserve as at 31/3/22 and 31/03/23 at £27k, however this is prior to the any variations to reserves identified in the 2018/19 out-turn position and on the assumption that budget savings are achieved each year to reduce the budget deficit as per the MTPF. It is important to note that the reserve will be depleted earlier if the required level of savings assumed in the MTFP are not achieved each year.

### ***Specific Service Related Matters***

#### **a) 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 and the potential impact of Brexit. 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 our surplus cash resources will start to diminish. This combined with potentially prepaying 3 years pension contributions for the period 2020/21 to 2022/23 means that investment income may be relatively suppressed. The preservation of security and adequate liquidity remain our priorities. Investment returns of 0.75% (2020/21) rising to 1.25% by 2022/23 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 capital cash resources are declining combined with recent decisions on property acquisitions the level of MRP is projected to increase over the medium term; the MRP charge is projected to increase from £537k in 2019/20 to £653k by 2022/23.
- ***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.

- b) ***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 £1.266m is assumed to remain unchanged over the life of the plan this is subject to annual review. A Strategic Review of Leisure is current underway.

## Appendix C

- c) **Council Tax Benefit & Housing Benefit Administration Subsidy** – In 2019/20, the Council will receive £406k from the Government for the administration of benefits split £123k (Council Tax) and £283k (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 diminish if Housing Benefit for Working Age people is fully incorporated within Universal Credit.
  - d) **Universal Credit** – Universal Credit Full Service was rolled out in the Pendle area in 2018/19. As claimant transfer and migrate over to Universal Credit, which will be provided by the Department for Work and Pension, this will impact on Housing Benefit. At this stage it is not possible to accurately quantify this as the rate at which claimants transfer is difficult to forecast.
  - e) **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. This is the first MTFP for a number of years where the level of funding has been based on estimates in lieu of the outcomes of the Spending Review and the Fair Funding Review being published in the Autumn 2019. 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.