Appendix E

Medium Term Financial Plan 2020/21 to 2022/23
Main Assumptions, Outstanding Matters and Potential Risk Issues

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

Table 1: Medium Term Financial Plan 2020/23

	Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
Net Cost of Services	15,929	15,322	15,796	16,650
Corporate Income and Expenditure	(2,404)	(1,983)	(278)	(256)
BUDGET REQUIREMENT	**13,525**	**13,340**	**15,518**	**16,394**
Funding	(11,664)	(12,126)	(12,873)	(13,219)
Net Shortfall / (Surplus)	**1,861**	**1,213**	**2,645**	**3,175**

2. The key assumptions on which the MTFP 2020/23 have been prepared are as follows:-

General Issues

Business Rates Retention – 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. It is important to note that current MTFP estimates are very uncertain given the 2019/20 Spending Review and Fair Funding Reviews as there is no information available on which to base the budget assumptions.

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	3,602	4,494	4,631
Collection Fund – Share of surplus	400	250	250

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:-

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

a) ***Revenue Support Grant funding*** – the MTFP reflects estimated receipts for Revenue Support Grant:

	2020/21 £000	2021/22 £000	2022/23 £000
Revenue Support Grant	1,164	1,187	1,211

b) **New Homes Bonus Allocations**

Allocations reflect the cumulative effect of allocations paid in respect of previous years (for a 4 year term) with a modest ‘new’ allocation in 2020/21 only.

	2020/21 £000	2021/22 £000	2022/23 £000
New Homes Bonus – previous years	254	155	142
New Homes Bonus – new in year	184	-	-
New Homes Bonus – Total	**438**	**155**	**142**

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

c) 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%).

d) ***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 20202/1, it is currently assumed that there will be no change to the Scheme;

e) **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 2021/23;

f) A ***Pay award*** of 2% has been assumed in each year over the life of the MTFP.

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

h) The Council’s ***Employers’ pension contribution rate*** has been determined by the outcome of the 2019 valuation of the Lancashire Pension Fund. This has set contribution levels for three years up to March 2023. 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:

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Past Service Deficit Lump Sum	1,204	607	631	655
Future Service % payment*	756	954	979	1,002
Total Payment to Fund	**1,960**	**1,561**	**1,610**	**1,657**

* Rate is 18.1% for each of the three years in the plan period 2020/21, 2021/22 and 2022/23 (compared to the current rate of 15

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

j) ***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;

k) ***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	400	200	200

l) ***Revenue Contribution to Capital*** – the Plan assumes no further revenue contributions towards the capital cost of improvements to the Council's own properties.

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

	2020/21 £000	2021/22 £000	2022/23 £000
Use of Reserves – Specific	156	345	250
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 31/3/23 £371k – however, the reserve will be depleted earlier than this if the required level of savings is not achieved each year of the plan.

n) ***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 2020/21 and subsequent years may have to be scaled back;

Appendix E

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 Budge 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 £643k by2022/23.

- ***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.

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 once 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 claimants 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 claimant transfer is difficult to forecast.

e) ***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 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 includes finalising the impact of the recently announced Local Government Finance Settlement 2020/21 which are not currently factored into the above MTFP assumptions.