

Appendix E

Medium Term Financial Plan 2021/22 to 2023/24

Main Assumptions, Outstanding Matters and Potential Risk Issues

- Table 1 below shows the Medium Term Financial Plan (MTFP) for 2021/24 before the use of reserves (and any savings requirement) in each year:-

Table 1: Medium Term Financial Plan 2021/24

	Budget 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000	Forecast 2023/24 £000
Net Cost of Services	15,500	16,146	16,211	17,067
Corporate Income and Expenditure	(1,970)	(2,788)	(1,684)	(1,520)
BUDGET REQUIREMENT	13,530	13,358	14,527	15,547
Funding	(13,269)	(8,524)	(11,854)	(12,064)
Net Shortfall / (Surplus)	261	4,834	2,673	3,483

- The key assumptions on which the MTFP 2021/24 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 One-Year only Spending Review for 2021/22 and the continued delay in the Fair Funding Review and the proposed changes to the Business Rates Retention Schemes. Taken together, there is little information available on which to base the budget assumptions although the Council continues to take advice from LG Futures in determining its estimates.

The table below shows the estimates of Business Rates Retained and also includes an assumption on potential surpluses on the business rates Collection Fund based on actual performance in previous years. This assumes collection on business rates returns to normal during 2021/22.

	2021/22 £000	2022/23 £000	2023/24 £000
Business Rates Retained	4,071	4,071	4,071
Collection Fund – Share of surplus	-	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 the event there is no business rates pool for Lancashire, there will be a requirement to pay a levy on business rates growth. However, it is not possible at this stage to say what the levy might be in 2021/22 given the prospects for growth look limited.

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

Appendix E

	2021/22 £000	2022/23 £000	2023/24 £000
Revenue Support Grant	1,170	1,194	1,218

c) New Homes Bonus Allocations

Allocations reflect the cumulative effect of allocations paid in respect of previous years (for a 4 year term with the exception of 2020/21) with a modest 'new' allocation in 2021/22 only.

	2021/22 £000	2022/23 £000	2023/24 £000
New Homes Bonus – previous years	155	142	-
New Homes Bonus – new in year	13	-	-
New Homes Bonus – Total	168	142	-

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

- d) 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%).
- e) **Localisation of Support for Council Tax (LCTS)** – Councillors last 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 2021/22, it is currently assumed that there will be no substantive changes to the Scheme;
- f) **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 2021/24;
- g) A **Pay award** of 2% has been assumed in each year over the life of the MTFP. As Councillors might be aware, the Government has indicated that public sector pay will be frozen in 2021/22. However, the Local Government Pay Award is a matter of negotiation between Local Government Employers and Local Government Unions. A 1% pay award costs the Council c£72k.
- h) No provision for **Staff Turnover** is assumed in any year of the Medium Term Financial Plan at this stage;
- i) The Council's **Employers' pension contribution rate** was determined by the outcome of the 2019 valuation of the Lancashire Pension Fund. This set

Appendix E

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:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Past Service Deficit Lump Sum	574	596	619	700
Future Service % payment*	954	975	1,000	1,022
Total Payment to Fund	1,527	1,571	1,619	1,722

* 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%)

- j) **National Insurance (NI) Contributions** – The plan reflects known changes in the NI framework at the time of preparation.
- k) **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;
- l) **Council Tax Collection** – A collection rate of 95% has been assumed, reflecting the impact on collection of the Covid-19 Pandemic. The Council Taxbase was assumed to grow by 0.75% per annum in 2021/22 but has contracted by 1.48%. For the remaining years of the Plan, it is assumed that the Taxbase will grow by 0.75% each year. 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:

	2021/22 £000	2022/23 £000	2023/24 £000
Council Tax – Collection Fund Surplus	100	200	200

- m) **Revenue Contribution to Capital** – the Plan assumes no further revenue contributions towards the capital cost of improvements to the Council's own properties.
- n) **Net Contributions from reserves are as shown in the table below:-**

	2021/22 £000	2022/23 £000	2023/24 £000
Use of Reserves – Specific	3,769	560	300
Use of Reserves – Budget Support	650	-	-

The above use of the Budget Support Reserve will leave the balance on the reserve as at 31/3/22 £353k – however, the reserve will be depleted earlier than this if the required level of savings is not achieved in each year of the plan.

- o) **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

Appendix E

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 2021/22 and subsequent years may have to be scaled back.

Specific Service Related Matters

a) Treasury Management Issues

- ***Investment Income*** – The Bank Rate now stands at 0.1% with mixed views amongst market commentators as to the rate and timing of any change; there is talk presently of negative interest rates. 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.

At the same time, as the number of external funding streams continues to reduce our surplus cash resources is likely to diminish. The preservation of security and adequate liquidity remain our priorities before yield (investment returns). Investment returns of 0.2% (2021/20) rising to 0.44% by 2023/24 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 £549k in 2021/22 to £660k by 2023/24.
- ***Debt Interest*** – Recognising the low interest rate returns on the Council's investments, the Debt Strategy agreed by the Council in setting the Council's budget for 2020/21 was amended by decision of the Council in December 2020. The change in the Strategy was to use internal borrowing to fund the Council's Capital Programme for 2020/21 (and in the medium term) and not external borrowing as originally planned. To that end, the cost of borrowing in 2020/21 will be less than anticipated. The impact of this Strategy is also reflected in the cost of debt in the medium term financial plan.

- b) ***Pendle Leisure Trust*** – the financial sustainability of the Leisure Trust remains an issue and the Trust's cost base is continually under pressure. At the same time, the continuing impact of Covid-19 means that the Trust's income has been significantly reduced. The recovery of the Trust's income from both memberships and pay-as-you-play activities may take some time and is more than likely to impact on the Trust's financial position in 2021/22.

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

Appendix E

of the Council's own corporate priorities. Whilst the current payment to the Leisure Trust of £1.445m is assumed to remain unchanged over the life of the plan this is subject to the continuing impact of Covid-19 on the Trust's operations.

- c) **Council Tax Benefit & Housing Benefit Administration Subsidy** – In 2020/21 the Council is expected to receive £368k from the Government for the administration of benefits split £118k (Council Tax) and £250k (Housing Benefit). The planning assumption is for a year on year reduction of 5% 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 does not include any discretionary growth and no provision for additional growth either as a result of any statutory matters or specific service improvements has been made (it is assumed this is absorbed within existing costs where this is possible). 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 2021/22 which are not currently factored into the above MTFP assumptions.