



CAI.34 15/16

**Challenge and  
Improvement Committee**

**Date 22 December 2015**

**C**

**Subject: Medium Term Financial Plan and Budget process progress  
2016/17**

Report by:

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Purpose / Summary:

To present Members with an update on progress of the development of the 2016/17 Medium Term Financial Plan

**RECOMMENDATION(S):**

1. That Members seek assurance on progress towards delivering a balanced financial position and maintaining sustainability going forward.

## IMPLICATIONS

**Legal:** The Council is required under statute to approve the level of Council Tax for 2016/17 and in order to do so will have to agree a balanced budget by the same date. This date is set as 3 March 2016.

**Financial : FIN/107/16 As detailed within the report**

**Staffing :** The impact on staffing levels may result from proposals within Business Plans, therefore it will be appropriate to engage with Staff and the Trade Unions as more detailed change proposals within services emerge. Such engagement will help to explore ways of reducing any adverse implications for staff.

**Equality and Diversity including Human Rights :  
Not applicable**

**Risk Assessment : Not applicable**

**Climate Related Risks and Opportunities : Not applicable**

**Title and Location of any Background Papers used in the preparation of this report:**

### Call in and Urgency:

**Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?**

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)

Yes

No

### Key Decision:

A matter which affects two or more wards, or has significant financial implications

Yes

No

## 1. Background

The Budget Strategy 2015/16 to 2019/20 was approved by Council in March 2015. This established a baseline for services to prepare initial revenue budgets for 2016/17 onwards based on the cost of providing the current level of service and approved policy decisions, against the

estimated reduction in funding, thus resulting in a net savings target for each future year.

The purpose of the Medium Term Financial Plan is to link the Council's strategic planning process with the budget process and to ensure consistency between them. It is a mechanism that attempts to match future predicted resource and expenditure, identifying potential shortfalls and provides the financial framework for the next 5 years. Its purpose is to inform members and to suggest a way of dealing with future financial pressures facing the Council.

The process to prepare and update the baseline to develop the Medium Term Financial Plan 2016/17 – 2020/21 commenced in July this year, with the process including;

- a. **Analytical Review** As the Council has realised surpluses over the past few years an exercise was undertaken by Budget Managers, with the support of their Accountant, to review the last 3 years surplus and deficits for each element of their budget. In agreement, service budgets have been reduced in 2015/16 and the ongoing reductions built into the base budget 2016/17 2015/16 This exercise has identified £0.82m of ongoing savings.
- b. **Accountants met with all Budget managers** to review the base budget, identifying any future pressures and savings which would impact on the MTFP. In addition a reviews of the current five year capital programme and earmarked reserves prior to review by Strategic Leads.
- c. **The Corporate Leadership Team** have received regular updates on the progress of the development of the MTFP at meetings held on 9 September, 6 November and 14 December and have approved the inclusion of individual pressures and savings, within their delegated powers.
- d. **Capital Investment proposals** will be discussed and reviewed prior to engagement with Members.
- e. **Leaders Panel**, Committee Chairs and Vice Chairs, have been engaged throughout the process, and received a presentation on the 8 September of a draft MTFP budget and to agree assumptions, and provide a steer on behalf of their Committees on proposals for funding options. A further meeting is scheduled for 5 January 2016 at which time we will have been informed of our settlement funding.
- f. **Corporate Policy and Resources Committee** received a report which approved the Budget assumptions and Financial Strategy Principles. The Report is attached at Appendix A for information.

## **g. Business Planning Process**

The annual Business Planning Process which commenced with Team Manager workshops were held in July/August to launch. Support was provided by Finance and Business Improvement teams, and which has resulted in Services producing detailed Business Plans which include;

- **Description of the Service and statutory functions**
- **Projects to enhance service delivery**
- **Commercial and efficiency opportunities** ie invest to earn/save
- In depth business review ideas generated through the IDBR process enabling participations if the proposals were implemented and if not the reasons for this.
- **Current Project, Programme and Work Areas:** An overview of the projects, programmes and work areas that are assigned to the service
- **Performance Measures Used in the In Depth Business Reviews (IDBRs)** A list of the analysis that was undertaken during the delivery of the IDBRs. This also includes information relating to the data source
- **Adopted Progress & Delivery (P&D) Measures:** Details of the measures that are included within the P&D reports
- **Non-adopted Performance Measures:** These are additional performance measures that have not been adopted as P&D measures
- **Potential Savings:** A list of the service specific savings identified through the IDBRs
- **Corporate Plan Linkages:** Measures discussed within the Corporate Plan that align with the service area
- **Finances:** An extract from the finance system showing past and forthcoming budgets.

This information was then used by Services to provide a Financial Business Plan for the next 2 years, incorporating investment proposals on how their Services could be developed/delivered to achieve additional income, reduced costs and efficiencies, and provided an estimation of the impacts these investments would have on the Medium Term Financial Plan. Heads of Service presented their investment proposals to Members at the Leaders Panel Away Day on 22 October 2014.

## **h. Public Consultation**

The opportunity to engage with the public on budget proposals, gain opinion on the services the public value, level of service provision, and charges for services has been undertaken and outcomes will be taken into consideration within the MTFP.

## 2. Budget Assumptions

There has been an estimation of the Council Tax base for 2016/17 and this will generate £5.6m in Council Tax. The actual calculation will be undertaken early in December in accordance with Statutory Regulations.

It is also estimated that New Homes Bonus of circa £2.5m will be received in 2016/17 and proposals for its investment will be considered as part of the Investment process. (Actual amounts will be confirmed in January 2016).

Government funding in respect of RSG and Retained NNDR have been taken from the Autumn consultation document. However final settlement figures will be received on 17 December 2015.

## 3. 2015/16 Forecast Out-Turn Position

The forecast out-turn position as at end of September reflected a surplus of £0.438m. Any surpluses in excess of this amount will be either earmarked for specific purposes or will be returned to the General Fund Balance at the year end.

## 4. 2016/17 Target Savings – Progress

	2016/17	2017/18	2018/19
<b>Annual Saving Target per MTFP 2015/16</b>	<b>704,300</b>	<b>1,449,100</b>	<b>1,967,400</b>
1% Pay Award Announced (2% assumption in budget model)	(58,900)	(133,800)	(212,200)
National Policy Impacts: Legislative Changes Employers NI	142,500	143,400	144,000
Establishment Changes	204,600	260,600	300,600
	<u>288,200</u>	<u>270,200</u>	<u>232,400</u>
Fees and Charges Savings - Demand	(37,200)	(37,200)	(37,200)
Fees and Charges Pressures - Demand	28,900	28,900	28,900
Fees and Charges Review - Pricing	(43,800)	(43,800)	(43,800)
	<u>(52,100)</u>	<u>(52,100)</u>	<u>(52,100)</u>
Changes to Inflation in MTFP (NNDR, utilities)	3,000	3,900	4,700
Contractual Increases	10,000	10,500	11,500
Contribution to Reserves - ICT and Vehicles	100,000	100,000	100,000
Ill Health Insurance	20,700	20,500	18,700
Insurance Premium Tax - increase 9%	11,000	11,000	11,000
Localisation of Council Tax Admin Grant	8,000	16,000	24,000
Other	19,300	45,900	75,800
Postage	8,000	8,000	8,000
Professional Training - Building Control Prof Trainees	4,100	4,100	4,100
Supplies and Services	14,300	19,300	17,800
Tree Work	3,200	3,200	3,200
Waste Recycling Agreement	0	0	86,000

Base Budget Review	(82,200)	(82,200)	(82,200)
Car Allowances & Mileage	(1,200)	(1,200)	(1,200)
Car Park Strategy (net)	(50,000)	(60,600)	(60,600)
CCTV Equipment - income	0	(23,900)	(23,900)
Civic Savings (Chairman's Allowances)	(3,500)	(3,500)	(3,500)
Commercial Income	(2,000)	(2,000)	(2,000)
Fraud Investigation Services	(30,000)	(30,000)	(30,000)
Planning Service Income	(117,800)	0	0
Trade Waste	(61,900)	(61,900)	(61,900)
Collection Fund - Accumulated Surplus	(152,100)	0	0
Council Tax Income	(177,900)	(287,500)	(401,400)
Revenue Support Grant	(307,300)	211,400	126,200
<b>TOTAL</b>	<b>(548,200)</b>	<b>119,100</b>	<b>4,600</b>

<b>Annual Saving Target per MTFP 2015/16</b>	<b>704,300</b>	<b>1,449,100</b>	<b>1,967,400</b>
Total Pressures	133,700	284,500	411,100
Total Savings	(44,600)	(89,300)	(131,300)
Funding	(637,300)	(76,100)	(275,200)
Commercial Investment Returns	(75,000)	(270,000)	(465,000)
Organisational Restructures	(185,000)	(185,000)	(185,000)
<b>Forecast Annual Saving Target per MTFP 2016/17</b>	<b>(103,900)</b>	<b>1,113,200</b>	<b>1,322,000</b>

Savings of £704m were identified within the Medium Term Financial Plan 2015/16 as being required to balance the 2016/17 budget. An amount of £0.808m has been identified. However a number of risks have been identified and are detailed below in section 5.

We await final settlement figures being announced, on 17 December 2015 in addition to calculating the impact on revenue a revised capital programme.

As can be seen in the table above, further savings of £1.113m are required for 2017/18. Failure to identify ongoing savings of this value will significantly impact on the Council achieving its required financial strategy over the medium term. As a result, there will be difficulties in maintaining the quality and quantity of services without exploring opportunities for collaboration and alternative forms of service deliver, and pursuing commercial activities to generate additional income. Therefore, the reshaping and transformation of service proposals contained within the Service Business Plans will need assessing and developing to deliver future savings, with the required level of investment being considered to facilitate this change.

In addition Commercial and Investment Strategies are being developed which will provide the policy framework for Commercial investments to enable new revenue income streams to be generated.

## **5. Risks**

Pending Issues relate to;

- Impact of NNDR appeals (High Risk)
- Grants from Government £0.130m (Low Risk)
- Final Settlement Funding

## **6. The next stages**

- consideration of investment and budget proposals contained within the Service Business Plans,
- to review Earmarked Reserves and overall level of reserves
- Members to consider both Revenue and Capital Investment Bids
- Consider any outcomes of the public engagement exercise
- The Management Team will be given the opportunity to review the draft MTFP and are tasked with identifying any further service savings, through initiatives which have been or are expected to be developed over the medium term as documented in their Service Plans.
- The final stage is to build in the government grant settlement and to ascertain the Council Tax Requirement to enable the budget to be balanced for the new financial year.
- Determine the final funding of any budget shortfall.

## **7. Future process**

The Budget process is documented for officers within an Approved Code of Practice (ACOP 10 Medium Term Financial Plan) and this document will be reviewed and updated to ensure that the Business Planning process is included and that a corporate timetable of the process is developed to enable services to forward plan.

The progress of approved investment proposals will be supported by Business Cases which will be reviewed by the relevant Officer Board, prior to implementation and monitoring.

Services will maintain their Business Plans as a working document to reflect their ever changing environment.

There will continue to be an emphasis throughout the organisation on the commercial approach to the operation and management of services, with the emphasis on achieving savings/efficiencies/income.

It is also expected that commercial investment opportunities will continue to be identified and presented to Members for consideration.



APPENDIX A

Report Number
Committee Corporate Policy and Resources Committee
Date

**Subject: A report to agree the underlying assumptions for the development of the Medium Term Financial Plan 2016 - 2021**

Please insert ✓ or N/A to verify this report has been cleared by:-

Finance	Legal	HR	Head of Service	Leaders Panel	CMT

To be removed by Committee Admin immediately prior to agenda despatch

**Report to be with Committee Admin no later than 5 working days before Chair’s briefing and final report no later than 6 working days before Committee.**

Report by:

Director of Resources

Contact Officer:

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Purpose / Summary:

To ask members to agree the underlying assumptions to be used in developing the MTFP for 2016-2021

**RECOMMENDATION(S):**

Members are asked to agree:

1 – The assumptions listed in paragraph 7 as the basis for developing the MTFP for 2016/2021.



## IMPLICATIONS

### Legal:

This paper does not have any direct legal implications

### Financial : FIN/85/16

Whilst this paper does not have any direct financial implications it will form the basis for the development of a balanced budget for 2016/17 and a sustainable Medium Term Financial Plan for 2016 - 2021

### Staffing :

This paper does not have any direct implications for staffing.

### Equality and Diversity including Human Rights :

*NB: Please explain how you have considered the policy's impact on different groups (for example: young people, elderly, ethnic minorities, LGBT community, rural residents, disabled, others).*

***There are no equality and diversity issues within this paper.***

### Risk Assessment :

This paper contains decisions that will have a direct impact on the fees and charges of the organisation. This has implications for the organisation's ability to balance its budget over the next five years.

### Climate Related Risks and Opportunities :

This paper does not have any direct implications for climate related risks.

### Title and Location of any Background Papers used in the preparation of this report:

*Wherever possible please provide a hyperlink to the background paper/s  
If a document is confidential and not for public viewing it should not be listed.*

### Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

*i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)*

Yes

No

### Key Decision:

*A matter which affects two or more wards, or has significant financial implications*

Yes

No

## **1 Introduction**

- 1.1 Members are required to set a balanced budget for the financial year of 2016/17. To ensure this single year is agreed within a sustainable context it is important that members are able to make decisions about the financial position for 2016/17 within a longer term context.
- 1.2 To facilitate the longer term context members' will be asked to consider a five year medium term financial plan (MTFP) for which the budget for 2016/17 will form the first year and establish the base for the further years within the plan.
- 1.3 This report will set out a range of assumptions on which members will be asked to agree, to establish the basis for the MTFP to be reported in February 2016.

## **2 What has already been achieved?**

- Council Tax Freeze – 4 out of 5 years (2013/14)
- Impact of Council Tax Income foregone - £400k
- Council Tax – dwellings increase of 1.215
- NNDR Pooling Benefit - £236k (2015/16)
- New Homes Bonus £5.9m (set aside for investment)
- Service savings of £3.45m – 20% reduction

## **3 Government Policy Pressures have included;**

- 35% Settlement Funding Reduction - £2.3m
- Impact of Localisation of Council Tax Support Scheme - £194k

## **4 The MTFP 2015/20**

- 4.1 On 3<sup>rd</sup> March 2015 Members agreed a medium term financial plan for the five year period 2015–2020 which made a number of assumptions. The underlying assumptions at that time were as follows:
  - Pay award 2%
  - RSG to reduce to £0 by 2020/21
  - NNDR 0% increase/growth
  - NHB scheme ceases 2015/16
  - Utilities inflation 5.2%
  - Contractual Inflation applied
  - Fees and charges inflation 2.4%

## **5 National and Local Context**

- 5.1 The election in May of this year returned a majority Conservative Government. The manifesto of the new administration clearly set out that the reductions in

the funding of the public sector would continue over the next five years of this parliament.

5.2 On the 8<sup>th</sup> July the Chancellor, George Osborn, delivered an emergency budget to the House setting out savings of £xxbn.

5.3 It has also been announced that Government Departments have been asked to model 25% and 40% reductions in spending over the life of the parliament.

5.4 This has implications for West Lindsey District Council in the following ways:

5.4.1 The range of government commitments to protect certain areas of expenditure has for some time included Education, Health and International Development and has been extended to include Social Care and Defence. The level of spending reductions for Local Government will be greater the higher level of protection extended to specific areas of government.

5.4.2 We are also aware that the Department for Communities and Local Government (DCLG) have indicated that given the difficulties being experienced by Upper tier and unitary authorities with Social Care that it is likely that Districts will be most affected within the Local government community.

5.5 NNDR (Business Rates) is currently being reviewed and the Chancellor recently announced that business rate would be fully devolved during the current parliament and we await the details on how that commitment will be delivered. In addition a valuation exercise is also underway and is due to report in 2017.

## **6 New Pressures**

6.1 The government announced prior to the election that the NI discount provided to those organisations providing a work-based pension will be removed from April 2016. This will mean an additional cost to the Authority of £143k.

6.2 Over the last few years our provision for capital replacement programmes and asset maintenance have been on an adhoc basis and we are proposing to formally recognise the planned replacement and maintenance of property and assets in the coming years.

6.3 The 2015-20 MTFP included a provision for the loss of recycling credits which will be fully utilised by 2017/18.

## **7 Financial Position**

7.1 The above issues lead to a financial position represented as follows:

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£	£	£	£	£	£
<b>CUMULATIVE SAVING TARGET - MTFP</b>	<b>0</b>	<b>704,300</b>	<b>1,449,100</b>	<b>1,967,400</b>	<b>2,412,900</b>	<b>2,912,900</b>
<b>PRESSURES:</b>	<b>29,300</b>	<b>279,800</b>	<b>288,700</b>	<b>383,300</b>	<b>391,500</b>	<b>399,700</b>
	<b>29,300</b>	<b>984,100</b>	<b>1,737,800</b>	<b>2,350,700</b>	<b>2,804,400</b>	<b>3,312,600</b>

It should be noted that as the budget process is still continuing there will be additional savings and pressures identified by services as they review and horizon scan, these will be reviewed by Management prior to inclusion in the MTFP.

## 7.2 Options to Respond to the Funding Gap

7.2.1 The Authority has a legal responsibility to agree a balanced budget for 2016/17 however best practice would require that we consider that as the first year of a five year sustainable financial strategy.

7.2.2 The Revenue Support Grant is forecast to reduce to zero by 2020/21 in the above figures and it is proposed that this assumption is still valid given the announcements being made by Government.

7.2.3 To respond to the potential funding gap there are a few options:

7.2.3.1 Council Tax Increases – every 1% increase will provide an additional £55k.

7.2.3.2 Fees and Charges – We have typically increased fees and charges in line with inflation however compared with similar authorities and local neighbours it is believed that we could consider above inflation increase of around 6%. However, this will be considered for each charge individually.

7.2.3.3 Traded Income – For some time the Authority has been developing opportunities to create traded activity to contribute to the income levels; services currently being developed include Fraud Detection Services, Building Control Activities and Trade Waste Services,

7.2.3.4 Commercial Investments – The commercial strategy and action plan is designed to deliver a range of activity that will generate additional income. A number of opportunities exist to borrow additional funds to invest in commercial property where returns would exceed the cost of borrowing and therefore contribute additional income to support services for residents and businesses eg a sample portfolio was identified which could have generated in excess of half a million pounds with a £17m investment.

## 8 Proposed Underlying Principles for the Development of the next MTFP

8.1 The purpose of this paper is to set out for members the challenge facing the organisation and seek agreement to a number of underlying principles. These principles would include that the MTFP for 2016-21 assume the following:

### 8.1.1 Fees and Charges

- Above inflation increases are introduced to a level that align the district with it's neighbours and like Authorities but does not become the most expensive.
- That charges are introduced where no charge is currently being made,
- Whilst Car Parking income already makes a contribution to the net budget position, the new Car Parking Strategy is designed to make a contribution towards the funding gap
- That the charging for green garden waste is recognised as a last resort for the Authority but is reflected as an option within the MTFP planning horizon.

### 8.1.2 Council Tax

That Council Tax will rise by the maximum amount permitted without the need for a referendum

### 8.1.3 NNDR

That the Council will continue to be a party to the Lincolnshire Pool

### 8.1.4 Commercial Investments

The Local Authority will plan to borrow at significant levels to deliver a contribution from those investments. These investments may be outside the District where they are designed to deliver purely financial returns to the Authority.

### 8.1.5 Service Efficiencies

Officers will continue to seek service efficiencies and deliver the maximum reduction in expenditure without a reduction in service levels.

The pay award assumption will be aligned with the Government announcement of a restriction of 1% p.a. for the next four years.

## 9 Conclusion

- 9.1 In conclusion, this paper sets out a number of underlying principles that will be used to develop the MTFP for the period 2016-2021. These principles will assist in securing a balanced budget for 2016/17 and form the basis of a sustainable Medium Term Financial Plan.