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| CPR.34 15/16 |
| Corporate Policy and Resources Committee |
| 10 November 2015 |

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

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| Report by: | Director of Resources |
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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:

The assumptions listed in paragraph 8 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 :

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:

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

X

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 3rd 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 8th July the Chancellor, George Osborn, delivered an emergency budget to the House setting out savings of £17bn with a further £20bn to find.
- 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 |
|--|---------------|----------------|------------------|------------------|------------------|------------------|
| | £ | £ | £ | £ | £ | £ |
| CUMULATIVE SAVING TARGET - MTFP | 0 | 704,300 | 1,449,100 | 1,967,400 | 2,412,900 | 2,912,900 |
| PRESSURES: | 29,300 | 279,800 | 288,700 | 383,300 | 391,500 | 399,700 |
| | 29,300 | 984,100 | 1,737,800 | 2,350,700 | 2,804,400 | 3,312,600 |

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.