



**Corporate Policy and Resources  
Committee**

**Date 8 November 2018**

**Subject: Mid-Year Medium Term Financial Plan (MTFP) Update**

Report by:

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Purpose / Summary:

This report seeks to update members on the Mid-Year MTFP position and to agree the principles and assumptions within the MTFP 2019/20 – 2023/24

**RECOMMENDATION(S):**

That the Policy and Resources Committee members;

1. Accept the current MTFP position and latest funding gap projection;
2. Approve the underlying principles and assumptions to be contained within the MTFP 2019/20 to 2023/24.

## IMPLICATIONS

<p><b>Legal:</b></p> <p>The Council has a responsibility to determine a legitimate budget and Council Tax requirement in compliance with statutory deadlines.</p>
<p><b>Financial : FIN/127/19/TJB</b></p> <p>The current MTFP position reflects that the 2019/20 budget can be balanced with a contribution to the General Fund of £0.185m</p> <p>In respect of the 5 year plan the 2023/24 funding gap is £0.605m however this is a current position there are a number of known pressures which are currently being assessed bringing the funding gap to £993k. However, income budgets for the funding settlement, council tax and NNDR are also yet to be finalised.</p>
<p><b>Staffing :</b></p> <p>The Head of Paid Service is responsible for the Council's organisational structure and staffing resources within the budget envelope.</p>
<p><b>Equality and Diversity including Human Rights :</b></p> <p>The Equality Act 2010 places a responsibility on Councils to assess their budget options before taking decisions on areas that could result in discrimination. Where appropriate assessments have been undertaken by the relevant service area.</p>
<p><b>Risk Assessment :</b></p> <p>Due to the assumptions and estimations within the MTFP there remains risks to future financial situation, however we have adequate reserves to mitigate these risks, in addition there is a contingency budget of £0.200m to offset any in year risks.</p>
<p><b>Climate Related Risks and Opportunities :</b></p> <p>None arising from this report.</p>
<p><b>Title and Location of any Background Papers used in the preparation of this report:</b></p> <p>None.</p>

### Call in and Urgency:

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

Yes  No

### Key Decision:

Yes  No

## **1. Purpose of the Report**

The Medium Term Financial Plan (MTFP) provides a robust financial forecast, based on the key financial management principles and budget assumptions for a 5 year period. It is then used as the framework for the detailed budget setting process to ensure the Council's resources are managed effectively in order to meet its statutory responsibilities and to deliver the Council's Corporate Plan priorities over the medium term.

### **Background**

2.1 In March each year the Council agrees the 5 year MTFP in addition to setting Council Tax levels and a Balanced Budget for the financial year ahead. Subsequent in year budget monitoring is undertaken on monthly basis and is reported quarterly to this Committee. This report provides a mid-year update of the MTFP position as at the end of September 2018.

2.2 The current 2018/19 to 2022/23 MTFP identified a funding gap of £0.647m by 2022/23.

2.3 Included in the 2018/19 MTFP were 3 significant items which were, at that time considered a risk;

- Commercial Property Investment (£0.679m net surplus)
- Green Waste Collection Charging (£0.502m net surplus)
- Leisure Contract (£0.269m cost saving)

2.4 Due to these risks the savings target was maintained at £2m. This target was set to also ensure that we are able to achieve some headroom within the budget to fund future investment to deliver corporate priorities.

## **3. Progress to date**

3.1 The current year 2018/19 forecast revenue position is a net surplus of £0.175m, after taking account of £0.130m carry forward requests. Any surpluses at the year-end are transferred to the General Fund Balance. Full details of the forecast out-turn position is reported elsewhere on this agenda.

3.2 The annual budget process is now almost complete and work to date has identified the following significant amounts;

3.3 The Council has invested £15.997m in 5 commercial investment properties and is currently achieving a net surplus (after costs of borrowing, management and contribution of £0.02m to Earmarked Reserves) of £0.612m (3.83%, gross 6.68%) against the target £0.679m (based on a £20m investment portfolio).

3.4 At its meeting in May 2018 the Corporate Policy and Resources Committee approved to increase the Commercial Investment Properties capital budget to £30m to enable us to invest in assets of between £5m to £10m, where our property advisors considered there would be less competition in the market. This additional investment is estimated to generate a further net surplus of £0.230m from 2020/21 onwards taking the target net income to £0.909m

- 3.5 The introduction of Green Waste Collection Charges in April 2018 has exceeded expectations and has resulted in a 50% take up. The MTFP 2018/19 assumed a prudent estimate of a net contribution to costs of £0.502m. The 2019/20 MTFP will reflect an additional net contribution of £0.205m.
- 3.6 The successful procurement of a Leisure Management contractor (SLM Ltd) has achieved the target reduction in costs of £0.269m. In addition the contract has supported investment of £1.4m in the Gainsborough Leisure Centre and will in part fund the borrowing costs for a dry leisure facility at Market Rasen.
- 3.7 Property and Assets Services have undertaken a thorough review of current leases and income levels. Disposals and rent reviews, in addition to void rates have resulted in a forecast pressure of £0.097m
- 3.8 The Trade Waste Service has reviewed their Business Plan and the impact has been reflected in the MTFP as due to market conditions and future growth expectations being unrealisable.
- 3.9 Due to increases in fuel prices a pressure has been added into the MTFP.
- 3.10 Drainage Board levies have historically exceeded inflationary increases.

#### **4. Assumptions**

- 4.1 Based on current intelligence the following % are to be applied within the MTFP:
- Employee costs 2% annually;
  - NNDR 3% annually;
  - Electricity 7% annually;
  - Gas 6% annually;
  - Water and sewerage 3% annually;
  - Where contractual inflation is applicable 3%.

#### **5. Current MTFP Position**

- 5.1 The current pressures and savings are outlined in the table below to provide a current MTFP position;

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
<b>MTFP - Funding Gap B/fwd</b>	<b>(134)</b>	<b>351</b>	<b>599</b>	<b>674</b>	<b>674</b>
<b>Pressures</b>					
Approved in Year	40	36	36	36	36
Employee Costs (net)	27	11	(32)	(37)	85
Property & Assets	96	96	97	97	97
Planning Fee Income			0	0	0
Housing Benefits Admin Grant	0	0	0	0	10
IT	13	6	6	6	6
Transport	39	39	39	39	39
Trade Waste	7	(8)	35	76	78
Drainage Board Levies	4	7	14	22	35
Inflation	17	17	17	17	42
Other	22	15	19	22	13
<b>Total Pressures</b>	<b>265</b>	<b>219</b>	<b>231</b>	<b>278</b>	<b>441</b>
<b>Savings</b>					
Approved in Year	(11)	(11)	(6)	(6)	(51)
Green Waste Service	(205)	(205)	(205)	(205)	(205)
Corporate Governance	(16)	(22)	(22)	(22)	(22)
Commercial Investment Property	0	(229)	(230)	(229)	(232)
Hemswell Residents Company	(20)	(5)	0	0	0
<b>Total Savings</b>	<b>(252)</b>	<b>(472)</b>	<b>(463)</b>	<b>(462)</b>	<b>(510)</b>
<b>MTFP - Funding Gap</b>	<b>(121)</b>	<b>98</b>	<b>367</b>	<b>490</b>	<b>605</b>

- 5.2 Whilst the 2019/20 budget position is currently reflecting a surplus, there are a number of issues to finalise;
- 5.2.1 Planning Fee Income - the service is projecting a current year deficit of £0.263m against the budget of £1.1m. A review is therefore being undertaken analysing previous trends and major/minor application volumes to inform future income budget projections.
- 5.2.2 A property related project will no longer go ahead and forecast income from the scheme will not be generated. Our processes will be reviewed to ensure that Pre-stage 1 – Stage 2 financial impacts of the Capital Programme are identified separately and not held in service areas until the project is fully approved and in delivery (Stage 3 or Business as usual schemes).
- 5.2.2 Revenue impact of the Capital Programme including the impact on the Treasury position. The Programme has yet to be finalised and the revenue implications built into the MTFP. A previous project will no longer progress resulting in a pressure from rental income which will not be realised of £0.248m Our method for dealing with future medium term impacts will be reviewed to ensure transparency of risks associated impact of changes or non-progression of schemes.
- 5.2.3 Fees and Charges are included elsewhere on this agenda and are included subject to approval.
- 5.2.4 Service Business Plan initiatives which achieve savings are currently being reviewed and considered for inclusion based on deliverability.
- 5.2.5 Funding settlements and Council Tax levels will not be finalised until the New Year. However, there is potential for the Government to reverse the impact of negative Revenue Support Grant which for 2019/20 would be £0.065m raising to £0.185m by 2021/22.
- 5.2.6 The table below therefore illustrates the amounts currently being reviewed or awaiting finalisation and currently illustrates a £993k funding gap.

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
<b>September - Funding Gap</b>	<b>(121)</b>	<b>98</b>	<b>367</b>	<b>490</b>	<b>605</b>
Property & Assets	178	248	248	248	248
Planning Fee Income	185	171	171	171	171
Fees and Charges	(7)	(13)	(19)	(25)	(31)
Business Plan initiatives					
NNDR (Business Rates)					
Council Tax					
Funding Settlement					
Interest (Investment/Borrowing)					
Impact of Capital Programme					
	<b>235</b>	<b>504</b>	<b>767</b>	<b>884</b>	<b>993</b>

## 6. Proposed Underlying Principles of the MTFP

6.1 Members are aware of the challenge the organisation is facing as Government funding is reduced to £0 in 2019/20. In fact we will be in negative position in relation to Revenue Support Grant of £0.065m in effect owing Government this money.

We therefore seek agreement to a number of underlying principles. These principles will be the basis on which the MTFP for 2019-2024 will be compiled;

### 6.1.1 Fees and Charges

- That charges are introduced where no charge is currently being made
- That charges will be based on full cost recovery in addition to align the districts with its neighbours and like Authorities but does not become the most expensive

### 6.1.2 Council Tax

That Council Tax will rise by the maximum amount permitted being the higher of 3% or £5 without the need for a referendum

### 6.1.3 National Non Domestic Rates (NNDR - Business Rates)

That the Council will continue to be a party to the Lincolnshire NNDR Pool and will, if approved by Government, participate in the 75% Business Rates Retention Pilot along with other Lincolnshire Authorities.

### 6.1.4 Commercial Property Investments

The Local Authority will 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 to support sustainable service delivery.

### 6.1.5 Service Business Plans

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

In addition services will consider opportunities to grow income levels or identify new income streams to contribute to the funding gap.

#### 6.1.6 Discretionary Services

Residents receiving these service will pay for the service.

6.1.7 The pay award assumption is aligned with the current Government award of 2% p.a.

6.1.8 Borrowing interest will be budgeted to reflect the estimated cost of borrowing for the capital programme to ensure a sustainable budget position. It must be recognised that savings on this budget are likely as from a Treasury Management perspective, cash balances will be utilised to provide internal borrowing to ensure we are not impacted by the costs of carrying debt, whilst being mindful of interest rate risk.

### 7. Budget Consultation

7.1 As members are aware consultation with the public and other stakeholders remains an important element in the MTFP programme. These consultations have been delivered across the District, in addition to an online Budget Consultation Tool, available on our website. The results of this exercise are currently being evaluated.

### 8. Lobbying Strategy - The Financial Settlement and Fairer Funding Review

8.1 The Council continues to lobby government along with other agencies, i.e. the Local Government Association, SPARSE, Society of District Treasurers and District Council Network, as well as submitting our own response to the consultation document.

The main elements of the consultation on the Financial Settlement 2019/20 relating to West Lindsey District Council are detailed below;

- **4 year settlement figures** – no change intended. Negative RSG may be addressed.
- **Business Rates Pilots (NNDR)** – The Council has bid along with other Lincolnshire Authorities to participate in a 75% business rates retention scheme. This may generate additional income of circa £0.6m for the Council which can be invested in economic regeneration schemes.
- **New Homes Bonus Baseline** - The baseline was set at 0.4% in 2017-18; only tax base growth above this baseline earned NHB payments. At this time there is no indication of the level at which it will be set.
- **Council Tax capping** – the same Council Tax Referendum principles will remain at the higher of 3% or £5.