



15 December 2016

Corporate Policy and  
Resources Committee

**Subject: A report to agree the underlying assumptions for the  
development of the Medium Term Financial Plan 2017 - 2022**

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 2017-2022

**RECOMMENDATION(S):**

Members are asked to agree:

1 – The assumptions listed in paragraph 7 as the basis for developing the MTFP for 2017-2022.

## IMPLICATIONS

**Legal:**

**This paper does not have any direct legal implications**

**Financial : FIN/103/17**

**Whilst this paper does not have any direct financial implications it will form the basis for the development of a balanced budget for 2017/18 and a sustainable Medium Term Financial Plan for 2017 - 2022**

**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**

**X**

**No**

## **1 Introduction**

- 1.1 Members are required to set a balanced budget for the financial year of 2017/18. 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 2017/18 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 2017/18 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 2017.

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

- Council Tax Freeze – 4 out of 6 years
- Impact of Council Tax Income foregone - £400k
- Council Tax – dwellings increase of 4.4% since 2013/14
- NNDR Pooling Benefit - £236k over past 2 years
- New Homes Bonus £8.0m (set aside for investment)
- Service savings of £3.9m – 28% reduction since 2012/13

## **3 Government Policy Pressures include;**

- Settlement Funding Reduction - £2.5m – 38%
- Impact of Localisation of Council Tax Support Scheme - £194k

## **4 The MTFP 2016-2021**

- 4.1 On 3<sup>rd</sup> March 2016 Members agreed a medium term financial plan for the five year period 2016–2021 which made a number of assumptions. The underlying assumptions at that time were as follows:

- Pay award 1%
- RSG to reduce to £0 by 2019/20
- NNDR 0% increase/growth
- NHB scheme ceases 2015/16
- Utilities inflation 4%
- Contractual Inflation applied
- Fees and charges increases above inflation where full cost recovery is not being achieved.

## **5 National and Local Context**

- 5.1 Indications from the new Government are that commitment to balancing the budget in this Parliament has been relaxed.

- 5.2 Devolution continues to evolve albeit, Lincolnshire are now considering options after 2 authorities voted against the proposal.
- 5.3 With the decision to withdraw from the European Union, there is a considerable amount of uncertainty around the impact on the UK economy.
- 5.4 It is intended that by 2020 Local Authorities will retain 100% of NNDR (Business Rates). In addition there has been a review of rateable values after a delayed valuation exercise was undertaken. New Rateable Values will be applicable from 1.4.2017.

## 6 New Pressures

- 6.1 The government announced that it will introduce a Living Wage which will start at £7.20 raising to £9.20 by 2020. This will mean an additional cost to the Authority of circa by £140k by 2020.
- 6.2 The introduction of an Apprenticeship Levy from 1.4.2017 will result in the Council being charged 0.5% of its payroll as a levy, this will be offset by funding towards the training of apprentices. The net impact being circa £18kper annum.
- 6.3 The Autumn Statement issued on 23 November 2016 confirmed that the Government would stand by their commitment to 4 year Settlement Funding, however clarity around New Homes Bonus and other Government Grant funding remains unclear.

## 7 Financial Position

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

Latest Projections @ 17.11.2016	2017/18	2018/19	2019/20	2020/21	2021/22
<b>MTFP 2016/17</b>	<b>382,003</b>	<b>683,669</b>	<b>703,748</b>	<b>1,065,091</b>	<b>1,065,091</b>
New Pressures	799,139	358,839	439,539	470,639	451,239
New Savings	-972,003	-1,244,090	-976,549	-1,004,696	-907,076
<b>Target Saving</b>	<b>209,139</b>	<b>-201,582</b>	<b>166,738</b>	<b>531,034</b>	<b>609,254</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 presenting to Leaders Panel for 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 2017/18 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 2019/20 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 – A detailed review of fees and charges in conjunction with the impact on demand will inform proposals for increases for Member consideration.

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. Focus on developing 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. Work continues to develop options for investment in commercial property which would be funded from borrowing, to generate returns which 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.

7.2.3.5 Business Planning – Proposals for one off investment to enable either efficiencies, or additional income to be generated, along with options to deliver 20% savings will be appraised with the developed of business cases to assess the outcomes, financial impact, and risks prior to being developed further.

## **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 2017-2022 continues to 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 2017-2022. These principles will assist in securing a balanced budget for 2017/18 and form the basis of a sustainable Medium Term Financial Plan.