



**Corporate Policy and Resources
Committee**

Date 9 November 2017

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. The outcome for the Earmarked Reserves Review and to agree the principles and assumptions within the MTFP.

RECOMMENDATION(S):

That the Policy and Resources Committee members;

1. Accept the current MTFP position and latest funding gap projection.
2. Approve the inclusion of a £200k Commercial Contingency Budget within the MTFP 2018/19
3. Approve the proposals in relation to Earmarked Reserves, including the creation of a Valuation Volatility Reserve of £250k.
4. Approve the integration of the Commercial Strategy and Action Plan into the Executive Business plan and to monitor as individual budgets within Performance Reporting.
5. Approve the underlying principles and assumptions to be contained within the MTFP 2018/19.

IMPLICATIONS

Legal: The Council has a responsibility to determine a legitimate budget and Council Tax requirement in compliance with statutory deadlines.
Financial : FIN/95/2018 The current MTFP position reflects that a further reduction of £159k is needed to balance the 2018/19 budget. In respect of the 5 year plan the 2022/23 funding gap is £255k however the risk based funding gap is £1.798m. The savings target will therefore remain at £2m.
Staffing : HR041-10-17 There has been a restructure at Team Manager Level, additional resources identified for carrying out Enforcement and utilisation of an element of the Disabled Facilities Grant to fund additional resources.
Equality and Diversity including Human Rights : 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.
Risk Assessment : Due to the assumptions and estimations within the MTFP there remains risks to the future financial situation, however there are adequate reserves to mitigate these risks, in addition to creating a £200k Commercial Contingency Budget.
Climate Related Risks and Opportunities : None arising from this report.
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?

Yes

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No

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Key Decision:

Yes

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No

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1. Purpose of the Report

This report provides an update on the progress made as at the end of September 2017 on the delivery of the 2017/18 Medium Term Financial Plan (MTFP).

2. Background

- 2.1 The Council agrees the 5 year MTFP annually in March prior to the commencement of the new Financial Year. In year budget monitoring is then reported quarterly to this Committee.
- 2.2 The 2017/18 to 2021/22 identified a savings target of just under £2m.
- 2.3 The MTFP 2017/18 projected a funding gap at 2022/23 of £434k, with a risk based funding gap of £1,884k which included significant projects within the Commercial Plan which were included in the MTFP 2017/18 which included a number of commercial aspirations and assumptions resulting in a total £1.45m of budget reductions as detailed in the table below;

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
MTFP - FUNDING GAP	(77)	126	440	434	434
Risks within MTFP					
Commercial Property Investments	270	587	669	679	679
Green Waste	502	502	502	502	502
Leisure Contract	225	269	269	269	269
RISK BASED FUNDING GAP	920	1,484	1,880	1,884	1,884

- 2.4 These initiatives result in an element of risk within the MTFP and therefore we maintained our savings target at £2m. This will also ensure that we are able we are able to achieve some headroom to fund future investment in corporate priorities.

3. Progress to date

- 3.1 The annual budget process is almost complete and work to date has identified the following changes to the MTFP;
- 3.2 The annual base budget review compares the past 3 years out-turn position against the 2017/18 base budget in a quest to identify small budgets which are no longer required. This process also identifies areas of pressure where either due to increased costs or levels of demands base budgets have been exceeded. This exercise has identified a net saving of £66.5k
- 3.3 With regard to ongoing staffing changes, the Head of Paid Service has achieved ongoing savings from a review of the Team Manager structure. This restructure, effective from September 2017, will have reduced the on-going base budget by £66k. In addition a saving of £29k which will be achieved for the next 3 years, from the utilisation of an element of the Disabled Facilities Grant for funding staffing resources to deliver these much needed adaptations, allowing people to remain in their homes.

- 3.4 There was an identified need to increase resources in the Enforcement team which has resulted in an additional budget of £89k this was especially evident in the areas of Planning and Housing Enforcement.
- 3.5 The success of the Trade Waste Service has resulted in a review of the Business Plan and projections for growth targets have been reassessed, this has resulted in an estimated £285k contribution to the funding gap by 2021/22.
- 3.6 Team Managers have developed their Business Plans which provide details of future service investment and the financial implications, these are currently being reviewed and prioritised and will inform both the Capital Programme and the 2018/19 MTFP

4. Commercial Plan Progress

- 4.1 The Commercial Plan was intended to be a proactive response in contributing to future financial sustainability. This was to be achieved through charging, trading and investment in order to reduce the net subsidy on services. A target of contribution of £1m was set.
- 4.2 Progress against this target has delivered £348k of ongoing income thus far as detailed below;
- Investment in Commercial Property £100k (Target £600k by 2020/21)
 - Trade Waste Income £124k (2017/18 Forecast)
 - Building Control Complimentary Services £15k
 - Pre-Application Planning Advice £55k
 - Surestaff Agency - £25k
 - Commercial Loan income - £29k

Proposals not included above include Green Waste charging and Leisure Management contract savings which are yet to be determined. In addition we can only estimate future levels Trade Waste Income against the Business Plan target sales, and as Members are aware the fluctuations in Planning Fee income can be significant year on year, all of which therefore pose a risk to the budget position.

- 4.3 Due to this level of budget risk it is proposed that a £200k Commercial Contingency Budget is established over the medium term, to mitigate any deficit in deliverability of commercial projects, with any unused balance being transferred at year end to the Finance Budget Risks Reserve.
- 4.4 It is also proposed that the Commercial Strategy and Action Plan will become embedded within the Executive Business Plan 2018/19 to 2022/23 which will detail how the Corporate Plan and strategic objectives will be achieved over the medium term. Therefore the overall funding gap including individual projects, budgets and achievements will be monitored through the quarterly monitoring reports presented to the Policy Committees.

5. Current MTFP Position

- 5.1 Taking all known movements into account the current position of the MTFP is detailed below;

	£'000	£'000	£'000	£'000	£'000
MTFP - FUNDING GAP	(77)	126	440	434	434
Base Budget Review - Savings	(117)	(282)	(282)	(282)	(282)
Base Budget Review - Pressures	73	73	73	73	73
Other Pressures under review	132	158	231	163	222
Contract Savings	(51)	(51)	(51)	(51)	(51)
Trade Waste Business Plan	(140)	(178)	(202)	(240)	(278)
Commercial Loan interest	(29)	(29)	(29)	(29)	(29)
Staffing Structures	(27)	(27)	(16)	(4)	(4)
Car Parking Strategy Phase 1	0	(30)	(30)	(30)	(30)
Commercial Property Investment reprofiled	195	0	0	0	0
Commercial Contingency	200	200	200	200	200
MTFP - FUNDING GAP OCTOBER	159	(40)	334	234	255

5.2 The Risk Based Funding Gap is estimated to be £1.798m by 2022/23.

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
MTFP - FUNDING GAP OCTOBER	159	(40)	334	234	255
Risks within MTFP					
Commercial Property Investments	224	541	623	633	633
Green Waste	502	502	502	502	502
Leisure Contract	225	269	269	269	269
Trade Waste	0	54	78	116	154
Planning Fee Income	0	185	185	185	185
Less Contingency	(200)	(200)	(200)	(200)	(200)
RISK BASED FUNDING GAP	910	1,311	1,791	1,739	1,798
% Increase on 2017/18 Council Tax	15.50%	22.33%	30.51%	29.63%	30.63%

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. We therefore seek agreement to a number of underlying principles. These principles would include that the MTFP for 2018-2023 continues to assume the following:

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
- That the charging for green garden waste is currently assumed to commence in April 2018 and this is currently subject of consultation.

6.1.2 Council Tax

That Council Tax will rise by £4.95 (the maximum amount permitted being the higher of 2% 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 100% Business Rates Retention Pilot along with all Lincolnshire Authorities.

6.1.4 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.

6.1.5 Service Efficiencies

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

6.1.6 The pay award assumption is aligned with the current Government restriction of 1% p.a. for the next four years.

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 the development of a Budget Consultation Tool was available on our website. The results of this exercise are currently being evaluated.

7.2 Other consultations which will affect the assumptions within the MTFP relate to the introduction of Green Waste charging and the Car Parking Strategy. The outcomes of which will be reported to members at a future meeting.

8. Lobbying Strategy - The Financial Settlement Consultation

8.1 The Council will continue to lobby government along with other agencies, ie 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 2018/19 relating to West Lindsey District Council are detailed below;

- **4 year settlement figures** – no change intended.
- **Business Rates Pilots (NNDR)** - same methodology for 2018-19 100% pilots as was used for the 2017/18 pilots. For those authorities who are going to apply to be a pilot in 2018/19, it is useful to know that the basic methodology will remain the same.
- **New Homes Bonus Baseline** - The baseline was set at 0.4% in 2017-18; only tax base growth above this baseline earned NHB payments. The actual baseline for 2018/19 will not be announced until the provisional settlement, and there is no indication of the level at which it will be set. As

expected, some further conditions are proposed which would give a lower payment (or even no NHB payment) on those new properties that were given planning permission on appeal. The Government is consulting now on those additional conditions.

- **Council Tax capping** – the same Council Tax Referendum principles will be used in 2018/19 for all classes of authority.
- **Confirmation of the methodology that was used in the 2017-18 settlement to adjust top-ups and tariffs following revaluation.** The main difference will be that the business rates income will be calculated using 2016/17 NNDR3 rather than the 2015/16 NNDR3 (as was the case when the original adjustments were published in the settlement earlier this year); in some cases, this could make a significant difference in the revaluation adjustment. Levy rates will also be adjusted to take account of the revised baselines.

9. Review of Earmarked Reserves

9.1 A review of the Earmarked reserves for 2017/18 identified the following:

- 5 Reserves that were carrying a nil balance
- 3 Reserves with balances that are no longer required – therefore balance to be returned to the General Fund
- 1 Reserve that does not currently hold sufficient funds (As advised by insurers)
- 1 Reserve which may not meet future initiative.
- 1 New Reserves be established at £250k to be funded from the General Fund Balance

9.2 The Reserves carrying a nil balance are as follows and as these projects have been completed or alternative schemes approved it is proposed to delete these reserves.

Area	Reserve	Purpose Held
Economic Regeneration	Outcomes and Outputs of Gainsborough Masterplan	To fund the delivery of the requirements of the strategic document: Gainsborough Masterplan
Economic Regeneration	Town Centre Projects	Post and project – now complete
Invest to Save	Shared Services Programme	To contribute to residual costs and ongoing project costs – now complete
Service Investment	Football Co-ordinator	Costs associated with Football Foundation Grant Co-ordinator – now complete
Service Investment	Performance Management Software	To upgrade performance management software requirements will be assessed as part of the capital bid process

9.3 The Reserves carrying balances which are no longer required are as follows:

Area	Reserve	Purpose Held	Balance
Service Investment	Flooding Alleviation	To support the practical flood alleviation measures	£2,400
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Service Investment	Flooding Alleviation Data Collection	To support the flood alleviation measures	£75,000
Service Investment	Parish Lighting	To support the SLA for maintenance costs	£6,400
Invest to Save	Big Society	Loan funding to Parishes and other social bodies with a view to generating a return	£300,000

9.4 The reserves are deemed to be no longer required due to the following reasons

- **Flooding Alleviation:**

New capital schemes will be considered as part of the capital bid process, there are no schemes identified as part of budget setting for 2018/19.

Immediate response costs to significant flooding, has in the past been met from the Bellwin Scheme set up by Government which will provide 100% grant funding for expenditure above our annual threshold (£27k), it is anticipated that such schemes would be made available again in the future. Any additional costs would be met from General Fund Balances.

- **Parish Lighting:**

Maintenance costs are budgeted for within the revenue budget. New investment in LED replacement lighting is to be funded by prudential borrowing.

RISK: There is no budget for a replacement programme for street lighting, this needs consideration as part of the Asset Management Plan.

- **Big Society Initiative –** No schemes have been identified and consideration should be given to the need for this reserve.

9.5 The reserve carrying insufficient funds is:

Area	Reserve	Purpose Held	Balance
Contingency	Insurance Fund	To meet any excess on insurance claims	£90,005
Budget Smoothing	Facilities Maintenance	To meet revenue and capital costs of repairs, maintenance and enhancements	(£163,931)

9.6 Our new Insurance provider Zurich Municipal recommended that the balance of the insurance fund should be £156k, which is our maximum exposure to excesses in any one year. However, our claims history is very low and management deem that an amount of £94k, being 60% of the recommended amount. Should this Reserve be utilised in the year any additional costs would have to be met from existing budgets and/or General Fund Balances

- 9.7 The Facilities Maintenance fund in year use includes £300k for Lea Road School, this is subject to a wider business case and therefore as yet not formally committed.

The Facilities Management fund will be reviewed as part of the development of the Asset Management Plan (to include Car Parks and Street Lighting) and the capital programme and will therefore be subject of a future report.

10. Recommendations

- 10.1 Accept the current MTFP position and latest funding gap projection.
- 10.2 Approve the inclusion of a £200k Commercial Contingency Budget within the MTFP 2018/19
- 10.3 Approve the integration of the Commercial Strategy and Action Plan into the Executive Business plan and to monitor as individual budgets within Performance Reporting.
- 10.4 Approve the underlying principles and assumptions to be contained within the MTFP 2018/19.
- 10.5 Approve the proposals in relation to Earmarked Reserves, including the creation of a Valuation Volatility Reserve of £250k