DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
FINANCE	FINANCE AND DEMOCRACY COMMITTEE	26 NOVEMBER 2018	5
FINANCIAL FORECAST UPDATE (INCLUDING REVENUE, CAPITAL & TREASURY MANAGEMENT) 2018/19 TO 2022/23			

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY

The report provides Members with an update of the financial forecast for the Council for the five years 2018/19 to 2022/23. It includes changes arising since the Budget was set by Council in March 2018.

RECOMMENDATIONS

The Committee is recommended:

1. To note the implications of this updated financial forecast, and to also note that this report will be presented to the Council meeting on 10th December 2018.

SUMMARY OF PREVIOUS DECISIONS

The Council set its budget for 2018/19 at its meeting of 5th March 2018. This report provides Members with an update of the financial position of the Council, including changes since that date.

CORPORATE PRIORITIES	
Spending your money in the most efficient way to achieve excellent services (**Value for Money**)	√
Delivering the services that customers expect of an excellent council (**Clean and Green**)	√
Working with all partners (**Vibrant Economy**)	√
To make sure Fylde continues to be one of the most desirable places to live (**A Great Place to Live**)	√
Promoting Fylde as a great destination to visit (**A Great Place to Visit**)	√

REPORT

1. PURPOSE OF THE FINANCIAL FORECAST UPDATE

1.1 This report is the mid-year and preliminary forecast of the Council's financial position and takes account of latest reserve balances, revenue and capital spending forecasts and treasury management issues. It also identifies and updates the financial risks and challenges facing the Council. The assumptions set out in this forecast are the latest best estimates and will be updated as and when further information becomes available.

1.2 This latest financial forecast update is designed to:

- Present an updated five-year financial forecast for revenue and capital spending based upon the best information available at the time;
- Review and update the currently identified risks and opportunities;
- Alert Members to any new specific risks and opportunities;
- Inform Members of any changes required to budgets due to external factors outside the Council's control; and,
- Provide a basis on which Members can begin to make future spending decisions.

2. BACKGROUND TO THE FORECAST

2.1 In order to 'scene set', the current financial position of the Council is summarised for Members as follows:

(i) Original Budget 2018/19

At the Council meeting on the 5th March 2018 the budget for 2018/19 and the medium term financial forecast were agreed. The resolution included a 2.99% increase in the average Council Tax amounts and a total net budget requirement of £9.675m for 2018/19. The General Fund balance at that time was forecast at the end of 2021/22 to be £2.724m. In agreeing the Original Budget for 2018/19 a number of key high level financial risks and assumptions were highlighted.

(ii) General Fund Revenue Outturn Position 2017/18

The revenue outturn position for 2017/18 was reported to Members in June 2018. The impact of the outturn position, including slippage items in the total sum of £0.137m, has been reflected in this updated forecast.

The favourable outturn position for revenue allowed for a further contribution to be made into the Capital investment Reserve for that year in the sum of £0.560m. Appendix E includes the latest estimate in this regard.

(iii) Budget Right-sizing Exercise

During the autumn each year officers undertake a budget right-sizing exercise to identify any in-year budget variances and any future budget adjustments that might be made. The exercise includes an analysis of underspends which have occurred over the last 3 financial years in order to identify structural variances and trends in income and expenditure levels. This has become part of the annual budget process. As a result a number of budget adjustments are included within Appendix C of this report under the heading 'Budget Rightsizing'. The efficiencies and savings captured by the right-sizing exercise are a combination of one-year-only and recurring savings. It is anticipated that in future years the level of efficiencies and savings that are achievable through the right-sizing exercise will be more limited.

(iv) Capital Outturn Position 2017/18

The latest approved expenditure budget in the capital programme for 2017/18 was £7.844m. After adjusting for slippage of £0.521m, the overall outturn position for 2017/18 was an in-year favourable variance of £0.010m against the latest updated estimate.

(v) General Fund Revenue Quarterly Budget Monitoring 2018/19

Revenue budget monitoring reports for the period to 31st July 2018 have been presented to each of the Programme Committees during the September cycle of meetings. These reports identified a number of budget areas for further consideration. As a result a number of changes have already been included in this latest forecast. These include revised fee income estimates, updated employee cost assumptions, and the latest estimate of employee costs.

3. THE GENERAL FUND REVENUE FORECAST

3.1 Appendix A of this report sets out the original revenue budget forecast as agreed at the Budget Council meeting on 5th March 2018.

3.2 Appendix B shows the general assumptions underpinning the base forecast, whilst Appendix C shows the financial impact of changes to general assumptions and the impact of other significant changes that have been identified since the budget was approved, including the impact of outturn 2017/18 and the budget right-sizing exercise. Appendix D sets out the narrative which explain the significant changes made to the forecast.

3.3 The impact of all these changes are summarised in Appendix E which details the latest updated forecast. The forecast needs to be considered carefully in the light of the identified risks which cannot be fully quantified at this time but may have an impact on the forecast at some future point.

The following decisions have also been made since the Budget Council meeting on 5th March 2018:

3.4 Business Rates: Membership of a Business Rates Pool, Submission of a bid for the interim 'pilot' scheme for 2019/20 and Future Year Income Estimates

The government consultation on 100% Business Rate Retention, announced during the spring of 2017 (and therefore prior to the June 2017 general election) included, inter alia, proposals to update the way that business rate pools operate. If implemented as described in the consultation document the proposals would mean that the arrangements for the Lancashire-wide Business Rate pool may cease to be appropriate and relevant for 2019/20 and beyond.

Consequently the Financial Forecast that was approved by Council in March 2018 assumed the future membership of the business rates pool, including the beneficial financial consequences, for 2018/19 only.

However, unexpectedly, the legislation required to implement these changes was absent from the programme of proposed government legislation for the current parliament and during 2018 the government re-affirmed the manifesto commitment to continue to allow local government greater control over the money it raises via a revised rates retention scheme, incorporating a revised local business rates retention level of 75%, and a revised implementation date of 2020/21.

As part of the development of these revised arrangements the government invited bids from existing Business Rate Pools to act as 'pilots' for the proposed scheme. An analysis of the impact of the 'pilot' scheme arrangements for the Lancashire Business Rates Pool indicates that (if the bid were to be accepted by the Ministry of Housing, Communities and Local Government - MHCLG) a significant net beneficial impact could result across Lancashire authorities. However this would firstly require a revised business rate pooling arrangement to be established between all of the Lancashire authorities.

At the meeting of 24th September 2018 the Finance and Democracy Committee considered the continued membership of Fylde Council in the Lancashire Business Rate Pool for 2019/20 and the submission of a bid by the pool for participation in the '75% Business Rate Retention Pilot Scheme' arrangements.

The Committee:

1. Approved the continuation of Fylde Council participation in the current Lancashire Business Rates Pool for 2019/20 on the assumption that the pool remains in existence;
2. Agreed the participation of Fylde Council in the submission of a bid by Lancashire authorities to form part of the '75% Business Rate Retention Pilot Scheme' arrangements for 2019/20 providing that a revised pooling arrangement, acceptable to all authorities, can be established;
3. Agreed that the current Lancashire Business Rates Pool should not be jeopardised in the event that the above bid is unsuccessful;
4. Noted that the next update to the Financial Forecast of the Council will be amended to reflect the latest information and expectations in respect of future levels of business rate income to the Council; and
5. Agreed that participation in the Lancashire Business Rate Pool for future years beyond 2019/20 should be kept under review and should be the subject of a report to the committee for consideration during next financial year.

Subsequently a bid for '75% Pilot Scheme' status was agreed between the Lancashire pool authorities and the bid submitted. At the present time confirmation from MHCLG regarding which arrangements will operate for 2019/20 are awaited, both in respect of the continuation of the Lancashire pool itself and in respect of the '75% Pilot Status' bid.

Currently the Financial Forecast assumes that Fylde Council will participate in a Lancashire-wide pooling arrangement up to and including 2019/20. The forecast does not assume any additional benefit arising from acceptance of the Lancashire Business Rates Pool as one of the selected '75% Business Rate Retention Pilot' schemes for 2019/20.

Any amendments to the levels of forecast Business Rate income to be retained will be reflected in future updates to the Financial Forecast.

3.5 <u>The Budget Right-sizing Exercise and further Transfers to Ear-marked Reserves</u>

The Council meeting of 5th March 2018 approved transfers to the Capital Investment Reserve in 2017/18 and 2018/19 equivalent to the balance of the revenue surplus for those years (after allowing for all approved transfers to other reserves), estimated at that time to be £1.081m for 2017/18 and £0.844m for 2018/19.

Following a favourable outturn position for 2017/18 and a review of the budget position for 2018/19 as part of the preparation of this Financial Forecast update, including the identification of fortuitous additional income for the year, costs-savings and the outcome of the budget right-sizing exercise, the revised forecast revenue surplus for 2018/19, currently stands at £1.468m as detailed at Appendix E. The revised forecast revenue surplus for 2019/20, also shown in Appendix E, is currently £0.498m.

4. Central Government Funding and the Four-Year Settlement Offer

4.1 The Local Government Finance Settlement for 2016/17 also included indicative funding levels for years 2017/18 to 2019/20 thus providing, for the first time, an 'illustrative' four-year funding settlement offer.

The funding sources that form part of the total central government illustrative settlement offer comprise:

- Revenue Support Grant
- New Homes Bonus
- Business Rate Retention
- Transition Grant

Full details of the illustrative funding levels for each of these income sources was included within the March 2018 Medium Term Financial Strategy (MTFS) report to Council. No further details or amended figures in this regard have been received since the initial publication of the data in January 2018, and consequently those indicative funding levels are shown within Appendix E of this update report. There is currently no available information regarding central government funding for local authorities beyond the illustrative 2019/20 funding.

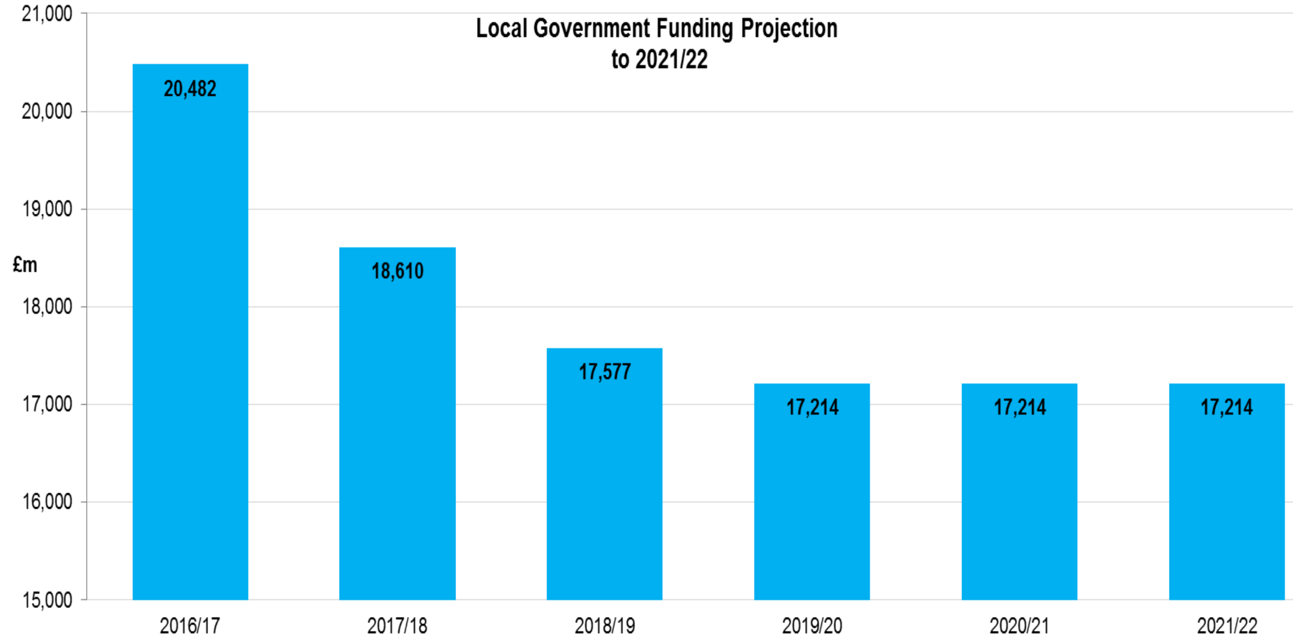
4.2 In July 2018 the Ministry of Housing, Communities and Local Government (MHCLG) published a consultation on the 2019/20 Local Government Finance Settlement. This included a number of proposals which would, if implemented, affect the level of grant funding that would be receivable by local authorities.

4.3 In December the Government will announce the 2019/20 Local Government Settlement. This may contain further information which could impact on assumed government funding levels for future years.

Alongside the proposals in relation to Business Rate Retention arrangements (as described at 3.4 above), of primary interest to Fylde Council is the proposed review of the 0.4% baseline level above which New Homes Bonus commences to be 'earned'.

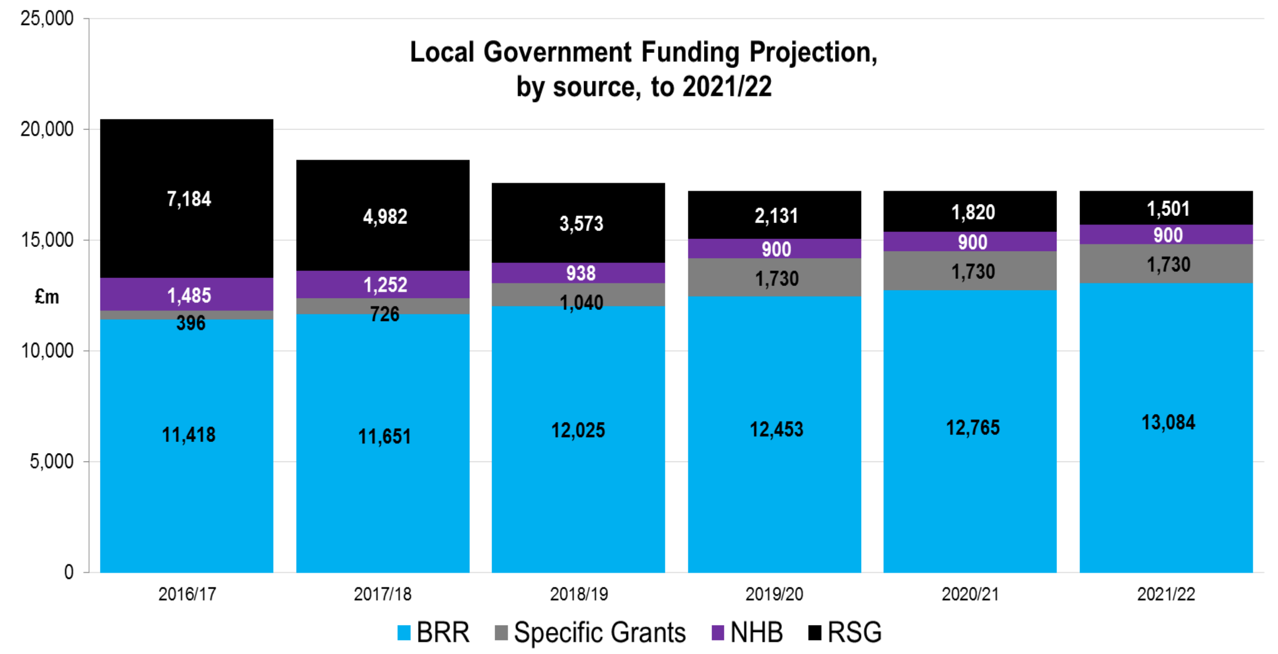
A response to the consultation may form part of the 2019/20 Local Government Settlement. Any changes to the levels of anticipated central government funding within the Financial Forecast arising from the settlement will be reflected in future updates to the Financial Forecast.

4.4 To provide a general outlook for the financial position of the public sector the scale of the overall projected reduction in central government funding to local authorities, and the change in the composition of that funding, is demonstrated in the following charts. The first chart shows the reduction in **total** local government funding levels over the period from 2016/17 to 2021/22:



The next table illustrates the change in the composition of total local government funding over the same period. It shows the projected changes from 2016/17 that being a continuation of the phasing-out of Revenue Support Grant (RSG), the reduction in levels of New Homes Bonus and the increasing proportion of funding that is from Retained Business Rates.

<u>Composition of Total Local Government Funding 2016/17 to 2021/22:</u>



5. KEY AREAS OF FINANCIAL RISK TO THE GENERAL FUND REVENUE BUDGET FORECAST.

5.1 In considering this forecast Members should note that there are a number of significant risks. In assessing each risk the following has been taken into account:-

<u>High Level Financial Impact Risk</u>

- Potentially a significant sum, with the potential for impact over a number of years
- Relatively little mitigation available to spread or defer the impact
- The possibility of a significant financial impact on the council if the risk materialises
- Probable need for change to the forecast if it materialises

<u>Medium Level Financial Impact Risk</u>

- Potentially a large sum, with the potential for impact over a number of years
- Some mitigation may be possible to spread or defer the impact
- The possibility of a sizeable financial impact on the council if the risk materialises
- Possible need for change to the forecast if it materialises

<u>Low Level Financial Impact Risk</u>

- Potentially a less significant sum
- Some mitigation may be possible to spread or defer the impact
- Impact should be capable of being absorbed without major forecast changes

5.2 **High Level Financial Impact Risks**

(i) <u>Future Central Government Funding</u>

As detailed in Section 4 above the central government funding figures currently shown within the General Fund Forecast at Appendix E comprise the funding allocations as contained within the 'illustrative' four-year funding settlement offer that was provided as part of the 2018/19 Local Government Finance Settlement, as amended for known changes in respect of retained Business Rates (including the impact of Fylde remaining a member of the Lancashire Business Rate Pool for 2019/20) and New Homes Bonus for 2019/20 based on revised projections of housing numbers under the current arrangements and baseline level.

There is a clear risk that the actual levels of central government funding beyond the current year (i.e. for 2019/2020 onwards) may differ from the amounts for those years that are reflected within this update.

Meanwhile, we await a response from central government to the July 2018 consultation on the 2019/20 Local Government Finance Settlement which included a number of proposals which would, if implemented, affect the level of grant funding that would be receivable by local authorities as detailed in section 4.2 above.

It is anticipated that the 2019/20 Local Government Finance Settlement may contain further information which will impact on assumed government funding levels for future years. There is also uncertainty about the level and makeup of central government funding beyond 2019/20.

Any amendments to the levels of central government funding levels within the Financial Forecast will be made as and when any revised allocations are provided and will be reflected in future updates to the Financial Forecast.

(ii) Announcement of a 'Fair Funding Review'

Linked to the risks as described above relating to future Central Government funding levels the Government has also confirmed that it is looking to implement the Fair Funding Review in April 2020.

The Government issued a consultation document which focussed specifically on potential approaches that have been identified to measure the relative needs of local authorities. In particular, it:

- presents the idea of using a simple foundation formula to measure the relative needs of local authorities, based on a small number of common cost drivers ;
- considers a number of service areas where in addition, a more sophisticated approach to measuring relative needs may potentially be required; and
- outlines the statistical techniques that could be used to construct relative needs.

The consultation does not cover the relative resources adjustment, transition or other technical matters but these will be the subject of a later series of discussion papers.

Although no details are known at this stage it is possible that, given the financial pressures on upper-tier and unitary councils with responsibility for services with escalating costs such as adult social care, that the review could result in shire district councils being regarded as requiring a reduced share of national resources. Any implications arising from this review will be reported within future updates to the financial Forecast.

(ii) Retained Business Rates

The decision to continue membership of the Lancashire Business Rates Pool for 2019/20, along with the participation of Fylde Council in the submission of a bid by Lancashire authorities to form part of the '75% Business Rate Retention Pilot Scheme' arrangements on the assumptions as detailed in Section 3.4 of this report, provides a degree of uncertainty at present regarding the anticipated level of retained Business Rate income in 2019/20. The outcome of the pilot scheme bid, or confirmation of the continuation of the current pooling arrangements, is anticipated alongside the announcement of the 2019/20 Local Government Finance Settlement in early December 2018.

Currently the Financial Forecast assumes that Fylde Council will participate in a Lancashire-wide pooling arrangement for 2019/20 only. The forecast does not assume any additional benefit arising from acceptance of the Lancashire Business Rates Pool as one of the selected '75% Business Rate Retention Pilot' schemes for 2019/20.

Any amendments to the levels of forecast Business Rate income to be retained will be reflected in future updates to the Financial Forecast.

5.3 **Medium Level Financial Impact Risks**

(i) Borrowing Cost Assumptions

In light of the current level of reserves and balances held by the Council, the forecast currently assumes that additional external borrowing will not be required during the life of the Financial Forecast and that internal cash balances will be utilised to fund capital expenditure. This means that the base forecast contains no provision for external borrowing beyond that currently held.

There is a risk therefore that if circumstances change over the forecast period and it is necessary to take out further external borrowing to fund existing capital commitments, there is no budget cover for such an eventuality. It is not currently envisaged that such circumstances will occur during the life of the forecast, and the position will be monitored carefully on an ongoing basis.

(ii) Reduction in Housing Benefit Administration Grant

The Council receives an annual grant to support the cost of the administration of Housing Benefit and Council Tax. The grant that the Council receives for these purposes has reduced in recent years, particularly in respect of the Housing Benefit element, as the government moves away from a system of Housing Benefit payments and towards a Universal Credit Scheme. This financial forecast reflects the latest estimates of reduced grant levels for 2018/19 and for subsequent years.

As updated grant notifications are received in respect of future years it may be necessary to update the forecast accordingly.

(iii) Universal Credit

The Government has commenced the consolidation of a number of welfare benefit allowances into a revised Universal Credit Scheme. One of these is Housing Benefit which is currently administered by the Council through the shared service with Blackpool Council. The intention is that the new Universal Credit Scheme will be provided on-line and will be administered by Department of Work and Pensions. The roll-out of the new arrangements are gradual and began in Fylde in respect of a small number of the less-complex cases in November 2014. The timing and financial implications of future developments of the scheme remain uncertain.

(iv) Grounds Maintenance – External Contracts

Throughout the future life of the forecast a number of grounds maintenance contracts with external parties will come to an end or will be due for renewal/re-tender. At the same time other opportunities will arise for additional contract work and these will be actively pursued as appropriate. Income from contracts supports the work of the Parks and Leisure Service teams by way of a contribution to management costs and corporate overheads. Officers will endeavour to seek extensions to contracts as they become due for renewal/expiry and will continue to seek suitable alternative new work. Should this not be possible there may be an adverse impact on the forecast.

5.4 **Low Level Financial Impact Risks**

(i) The Living Wage

In March 2015 the Council agreed a policy to adopt the Living Wage Foundation pay rates for all employees, excluding apprentices, with effect from 2015/16, such that the Council became a 'Living Wage Employer' from that point forward. Additionally, in the autumn of 2015, the government announced the introduction of a statutory National Living Wage to apply from April 2016 for all employees over the age of 25.

The revenue estimates include annual amounts for the estimated impact of the annual increases in the hourly rates for the Foundation Living Wage and the National Living Wage. In the event that actual future year increases are higher than the estimated levels such that the increases cannot be contained within the approved budgets future adjustments to the Financial Forecast may be necessary.

(ii) Community Infrastructure Levy (CIL)

The Community Infrastructure Levy (CIL) which came into operation nationally in April 2011 is intended to assume the role of the traditional Section 106 Agreement. However Section 106 Agreements continue to have a role to play on site specific development proposals. For the CIL to become operational within the borough the Local Plan will need to be in place. As part of the local plan evidence base an Infrastructure Delivery Plan (IDP) has been prepared which explores the infrastructure required to deliver the local plan. The IDP will also help inform a CIL charging schedule.

In its Housing White Paper, Fixing our Broken Housing Market, Government stated that it "will examine the options for reforming the system of developer contributions including ensuring direct benefit for communities, and will respond to the independent review and make an announcement at Autumn Budget 2017" (para 2.29). A more recent (post budget) consultation: "Planning for the right homes in the right places" advises that "Government continues to consider wider options for reform, in the light of the independent review of CIL and its relationship with section 106 published alongside the housing White Paper. We are also aware of some technical issues with the implementation of CIL. The Government is keen to ensure that CIL legislation operates as intended and will consider how to ensure certainty for developers and local authorities, including clarifications through legislation if necessary". (para 104)

Until the Government concludes its review of CIL, the form that CIL will take in future is unclear and the financial implications are unknown.

6. GENERAL FUND RESERVE AND OTHER EARMARKED RESERVES & PROVISIONS

6.1 The Council carries a General Fund Reserve (often referred to as General Reserves) and a number of other earmarked reserves and provisions. These are held for a number of purposes:

- As a working balance to help cushion the impact of uneven cash flows and avoid the need for temporary borrowing;
- As monies specifically set aside for future events or liabilities (known as earmarked reserves and provisions); and
- As a contingency to cushion the impact of unexpected events or emergencies.

6.2 The Council's General Fund Reserve Balance at 31st March 2018 was £3.685m.

6.3 The Council has a Useable Reserves and Balances Policy in place, which is reviewed and approved annually as part of the budget setting process. If any reserves can be released, proposals will be presented in a future financial forecast update.

7. CONCLUSIONS – GENERAL FUND REVENUE FORECAST

7.1 The overall position on the Council's financial forecast, as summarised in Appendix E of this report, is an improvement in the short-term since Budget Council in March 2018, with surpluses now forecast for each of the years up to and including 2022/23. The improved financial forecast position for 2018/19 is due to a number of factors including increased levels of income from retained business rates and the impact of the in-year savings and efficiencies listed in Appendix C of the report.

7.2 In light of the potential for future reductions in central government funding and uncertainties around the level of retained business rates from 2020/21 onwards, the Council needs to continue with the approach to delivering savings and efficiencies which have helped deliver balanced budgets and contribute to reserves over recent years. Through continued focus on the importance of financial stability the Council has delivered a significant savings programme since 2007 and has continued to reduce senior management costs and other overheads. Ongoing modernisation work and business improvement will continue to make Council services more efficient, save money and maintain high quality frontline services to customers. This work has yielded ongoing savings to help improve the Council's overall financial position over that period. For Fylde Council to continue to successfully meet the new challenges that it faces it is vital that this approach is re-doubled and that all reasonable opportunities for further cost-reduction measures and for the generation of additional income are seriously considered. Prudent financial management in previous years has provided a level of reserves which allows the necessary time to determine how this council can best respond to the increased challenges.

7.3 The assumptions that are contained within the Forecast Update are the latest best estimates and will be updated as and when further information is available. External pressures outside the Council's control are being experienced by many local authorities, and instructions remain in place that budget-holders should remain prudent and not commit to any unnecessary expenditure. This approach saves money and may result in an under-spend for the 2018/19 financial year.

7.4 Budget planning work for 2019/20 is well underway and further updates of the financial forecast will be brought before Members in due course.

8. COLLECTION FUND

8.1 As a Council Tax and National Non-Domestic Rates (NNDR) Billing Authority, the Council is required by legislation to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and NNDR, and to calculate the surplus or deficit for each financial year on the Collection Fund. Prior to 2013/14 the requirement was to maintain this for Council Tax only, however, as part of the Local Government Finance Act 2012 the Government implemented a Business Rates Retention Scheme from April 2013, whereby the collection and distribution of NNDR is also collected and distributed via the Collection Fund (the distribution of NNDR had previously been managed nationally).

8.2 For Council Tax only, there was a deficit on the fund as at 31st March 2018 of £149k. This will be shared between the Borough Council, the County Council, the Police Authority and the Fire & Rescue Authority in 2018/19 & 2019/20. Fylde Council's share of the deficit is £20k which is reflected within Appendix E.

8.3 For Non-Domestic Rates only, there was a surplus on the fund as at 31st March 2018 of £531k. This will be shared between Central Government, the Borough Council, the County Council and the Fire & Rescue Authority in 2018/19 & 2019/20. Fylde Council's share of the surplus is £212k which is reflected within the Business rate income forecasts within Appendix E.

9. THE CAPITAL PROGRAMME

9.1 The Capital Programme is updated continually for agreed changes and reported to Members during the financial year on a periodic basis.

9.2 The latest updated Capital Programme Summary for the years 2018/19 to 2022/23 is set out in Table 1 below. The Programme has been updated for changes to the end of October 2018. A prudent approach is taken in preparing the programme to ensure that financing resources are only recognised when there is reasonable certainty that they will be received.

TABLE 1 - SUMMARY CAPITAL PROGRAMME

	Estimate 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000
Committee:					
Finance & Democracy Committee	238	0	0	0	0
Tourism & Leisure Committee	631	253	40	40	40
Operational Management Committee	14,420	6,809	625	155	383
Environment, Health & Housing Committee	2,806	1,854	1,010	1,010	1,010
Planning Committee	703	280	0	0	0
Total Capital Payments	**18,798**	**9,196**	**1,675**	**1,205**	**1,433**
Financing:					
Availability of Resources	**18,798**	**9,196**	**1,675**	**1,205**	**1,433**
Total surplus (-) / shortfall in year	0	0	0	0	0
Cumulative surplus (-) / shortfall	0	0	0	0	0

9.3 Capital schemes are directly linked with the Council's priorities. Major items of enhancement or renewal are identified via the Council's Asset Management Plan and work is underway to review and update this. The planned spend over the life of the programme is continuously reviewed. If any scheme profiling amendments are required these will be reflected in future periodic update reports.

9.4 Financing the Capital Programme

The Council finances the Capital Programme from a variety of sources. These include:-

(i) Specific Capital Grant Allocations;
(ii) Disabled Facilities Grant;
(iii) Capital Receipts;
(iv) External Funding (such as Heritage Lottery Funding and the Environment Agency);
(v) Prudential Borrowing/Leasing;
(vi) Revenue Funding; and
(vii) Capital Investment Reserve

9.5 Members are asked to note the current balanced position on the Capital Programme.

10. VEHICLE PURCHASES

10.1 The Council has adopted a Service Modernisation Strategy for Operational Services which includes a rolling programme of vehicle replacement that assumes the replacement of vehicles on a like-for-like basis at the end of their useful economic life. The approved capital programme includes significant capital expenditure for scheduled operational vehicle replacements during the life of the forecast. This expenditure has been reviewed and re-phased to reflect the currently expected profile of vehicle replacements.

11. KEY AREAS OF FINANCIAL RISK TO THE CAPITAL PROGRAMME

There are a number of financial risk areas within the Capital Programme for Members to be aware of:

11.1 Medium Level Financial Impact Risks

(i) Coast Protection Scheme

The Fairhaven and Church Scar Coast Protection scheme total cost is £21.83m, being funded by Environment Agency grants of £21.43m and a contribution from Fylde Council of £0.4m. This is made up of a contract price of £17.6m, with a risk/contingency budget of £1.7m and a budget for fees of £0.5m. Work started on site in December 2017 and is progressing well with the replacement hard sea defences at Church Scar nearing completion and with work on the promenade underway. Work on the sheet piling around Fairhaven Lake stated in September, four months ahead of schedule.

In addition to the core sea defence works a range of public realm enhancements to the scheme have been added to the scheme at a total cost of £360k, funded by Fylde Council from the Capital Investment Reserve. The works relate to the remodelling of the Stanner Bank car park entrance, the provision of bespoke seating to compliment the wider landscape and the provision of ducting to allow for future services connection to a potential structure/building on or around the Mawson lookout. These works will be delivered alongside the main scheme.

The expenditure forecast has been re-phased to reflect the current expectations regarding the timing of the delivery of the scheme. Further re-phasing of the expenditure profile between the years is likely to be required as the scheme progresses and the capital programme will be updated accordingly and reported regularly to members.

The Coastal Defence Team have been successful in securing additional funding from the Environment Agency to enable the Granny's Bay hard sea defences to be delivered following completion of the Fairhaven Scheme in 2019/20. A report on this additional work in the sum of £2m (which is reflected in the total scheme cost above) was approved by the Operational Management Committee at its meeting in September and Council in October 2018. The Granny's Bay works will essentially tie the two schemes at Fairhaven and Church Scar together, as well as providing local erosion and flood protection. Completion of these works will remove the requirement for much of the emergency maintenance works undertaken by the Council following extreme storms at Granny's Bay. With Granny's Bay now included the whole scheme is now currently forecast to be completed by summer 2020.

Due to the significant value of scheme it is classified as a medium level financial risk

(ii) Vehicle Replacement Programme

The estimated vehicle replacement profile, to replace existing fleet at the end of its useful economic life from 2018/19 to 2022/23 within the Capital Programme totals £2.835m.

It is important to note that purchase prices will fluctuate with new models and technological/legislative changes and it is therefore necessary to reality check the costs associated with new vehicles on an annual basis and make any necessary adjustments to the capital programme to ensure that ongoing fleet replacement is accurately budgeted for in future years.

Due to the significant value of the vehicle replacement programme and the potential for changes in vehicle specifications and emissions regulations this scheme has been highlighted as a potential future risk.

11.2 Low Level Financial Impact Risks

(i) Project Slippage

It is important that the Council monitors capital scheme slippage to ensure that no loss of external grant is imposed due to conditions associated within specified timescales.

(ii) Other Capital Receipts

The approved programme for 2018/19 onwards assumes “Right to Buy” receipts of £25k per annum and “General Asset Sales” of £45k per annum. Future receipts are dependent on prevailing market conditions and values cannot be predicted with certainty. This will be monitored and reviewed during the year and adjusted accordingly in future quarterly monitoring reports, along with the impact this may have on the financing of the programme.

(iii) Better Care Fund (Formerly Disabled Facilities Grants)

As the local housing authority, the Council has a statutory duty to provide disabled adaptations within the Borough. In order to fund these works the Council receives grant support which previously was provided by the Department for Communities and Local Government (DCLG). From 2015/16 the Government established the ‘Better Care Fund’, and under these new arrangements the funding for Disabled Facilities Grants transferred to the Department of Health, with funding being distributed to all Councils via the upper-tier authority for that area. As such, in Lancashire the fund is administered by Lancashire County Council. Each upper-tier authority then allocates the funding to their respective housing authorities (i.e. district councils within their area) to enable them to continue to meet this statutory responsibility.

The level of government funding has increased significantly under the ‘Better Care Fund’ arrangements and the updated budget for 2018/19 (including slippage from 2017/18) of £1.255m provides for the delivery of more disabled adaptations than has previously been possible. It is anticipated that for 2018/19 all identified need for disabled adaptations can be met from the existing resource.

12. CONCLUSIONS – CAPITAL PROGRAMME

12.1 The current Capital Programme as updated is showing a balanced position for 2018/19 onwards.

12.2 The capital programme and the associated financing will be subject to discussion with Members during the coming months as part of the annual budget setting process for 2019/20.

12.3 Any additional expenditure which is not fully funded by external finance would normally require the generation of capital receipts or further borrowing (the latter placing further pressure on the Revenue Budget from the consequent repayment costs). However Budget Council on 4th March 2013 approved the creation of a Capital Investment Reserve to finance future capital expenditure. The balance of this reserve at 31st March 2018 was £3.220m. Of this £1.933m was already committed to deliver existing approved capital schemes in the years 2018/19 and 2019/20. Since Budget Council, further schemes totalling £0.653m have been approved by Members, leaving an unallocated balance on the reserve of £0.633m before any further budgeted transfers in. The current financial forecast as set out in Appendix E estimates further transfers in of £1.468m at the end of 2018/19 and £0.498m at the end of 2019/20, which together with the current unallocated balance of £0.633m would leave available resources in the reserve of £2.599m. The estimated transfers in are of course subject to change as costs and income undoubtedly fluctuate over the next 2 financial years.

13. TREASURY MANAGEMENT

13.1 The Treasury Management Strategy and Prudential Indicators were approved by Council on 5th March 2018.

13.2 The regulatory framework for treasury management requires Councils to receive a mid-year Treasury Review report. This report will be presented to the Audit and Standards Committee for scrutiny on 15th November 2018 and subsequently will be presented to Council on 10th December 2018.

14. KEY AREAS OF FINANCIAL RISKS FOR TREASURY MANAGEMENT

14.1 There are a number of potential areas of significant risk associated with Treasury Management activities, the most significant of which are:

(i) Unexpected movements in cash flow;

(ii) Differences between the actual interest rate and interest rates used in the forecast; and,

(iii) The security of monies invested with counterparties

15. CONCLUSIONS – TREASURY

15.1 Investment rates available in the market continue to be at historically low levels. As a consequence of the voters' decision to exit the European Union ('Brexit') both bank base rate and investment return rates are expected to remain low for some time. A further consequence of the 'Brexit' vote has been an increased uncertainty in economic forecasts and financial markets. The Council will continue to aim to achieve the optimum return on investments commensurate with proper levels of security and liquidity that have been approved by Members.

16. OVERALL CONCLUSIONS ON THE LATEST FINANCIAL FIVE YEAR FORECAST UPDATE

16.1 The overall position on the Council's financial forecast, as summarised in Appendix E of this report, is an improvement in the short-term since Budget Council in March 2018, with surpluses now forecast for each of the years up to and including 2022/23. The improved financial forecast position for 2018/19 is due to a number of factors including increased levels of income from retained business rates and the impact of the in-year savings and efficiencies listed in Appendix C of the report.

16.2 In light of the uncertainties surrounding future national funding arrangements the Council needs to continue with the approach to delivering savings and efficiencies and maximising income which have helped deliver balanced budgets and contribute to reserves over recent years. Through continued focus on the importance of financial stability the Council has delivered a significant savings programme since 2007 and has continued to reduce senior management costs and other overheads. Ongoing modernisation work and business improvement will continue to make Council services more efficient, save money and maintain frontline services to customers. This work has yielded ongoing savings to help improve the Council's overall financial position over that period.

16.3 Although further challenges may be encountered in the future the finances the reserves and balances are at healthy levels as compared to earlier periods. Furthermore Fylde Council has a past record of taking actions in order to meet and overcome those challenges; the introduction of a chargeable green waste collection service in the current year being a recent and a prime example of such action, as was the decision to join a Business Rates pool from 2017/18. Fylde Council will continue to seek other such opportunities to maintain a robust financial position in the face of a challenging and changing financial environment. This approach will ensure that the Council continues to achieve and sustain a balanced budget position on an ongoing basis and is able to deliver the priorities set out in the Corporate Plan.

16.4 The assumptions set out in this forecast are the latest best estimates and will be updated as and when further information becomes available. External pressures outside the Council's control are being experienced by all local authorities, and instructions remain in place that Officers should not commit to any unnecessary expenditure

16.5 **The financial position of the Council remains robust. Members should, however, continue to be cognisant of the risks that are detailed within this in order to maintain a sustainable financial position for the Council.**

IMPLICATIONS	
Finance	The financial implications are contained within the body of the report.
Legal	None arising from this report
Community Safety	None arising from this report
Human Rights and Equalities	None arising from this report
Sustainability and Environmental Impact	None arising from this report
Health & Safety and Risk Management	None arising from this report

LEAD AUTHOR	CONTACT DETAILS	DATE
Paul O'Donoghue Chief Financial Officer	01253 658566	November 2018

BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
Medium Term Financial Strategy (MTFS) Update, Including General Fund, Capital Programme and Treasury Management for 2017/18 – 2021/2022	Budget Council meeting 5th March 2018	www.fylde.gov.uk
MTFS – Outturn Position For 2017/18 (Including General Fund, Capital Programme & Treasury Management)	Finance and Democracy Committee meeting 25th June 2018	www.fylde.gov.uk
Revenue Budget Monitoring Report 2018/19 – to 31st July 2018	Finance and Democracy Committee meeting 24th September 2018	www.fylde.gov.uk
Capital Programme Monitoring Report 2018/19 – to 31st July 2018	Finance and Democracy Committee meeting 24th September 2018	www.fylde.gov.uk

Attached Documents:

1. Appendix A – Forecast approved at Council on 5th March 2018
2. Appendix B – Schedule of general assumptions underpinning the forecast
3. Appendix C – Schedule of changes to the forecast
4. Appendix D – Explanation of changes to the forecast
5. Appendix E – Updated latest forecast position

Appendix A

General Fund Budget Forecast 2017/18 to 2021/22 - Approved at Budget Council March 2018

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Adverse / Favourable
Forecast approved at Council on 2nd March 2017	8,980	9,706	10,077	10,256	10,256	
Forecast Changes - per Appendix C of March 2018 MTFS report	- 186	- 51	72	164	291	Adverse
Budget Proposals - per Appendix F of March 2018 MTFS report		20				
Forecast Budget Requirement	**8,794**	**9,675**	**10,149**	**10,420**	**10,547**	
Financed by:						
Council Tax Funding:						
Council Tax - Precept	5,733	5,998	6,229	6,464	6,703	
Council Tax - Share of Previous Years Surplus/(Deficit)	40	- 35				
Sub Total - Council Tax Funding	*5,773*	*5,963*	*6,229*	*6,464*	*6,703*	
Business Rates Funding:						
Retained Rates (including pooling benefit & contbtn to/from CF deficit reserve)	4,095	3,231	2,410	2,410	2,410	
Approved Contribution to Funding Volatility Reserve	- 2,000					
Sub Total - Business Rates net of reserve transfers	*2,095*	*3,231*	*2,410*	*2,410*	*2,410*	
Council Tax Freeze Grant relating to 2015/16 freeze						
New Homes Bonus	1,665	1,349	1,221	1,280	1,165	
Less - NHB distribution to Town & Parish Councils		- 67				
Revenue Support Grant	354	47				
Transition Grant	56					
Less - Parish Element of Council Tax Support Funding	- 27	- 4				
Sub Total - Other Funding	*2,048*	*1,325*	*1,221*	*1,280*	*1,165*	
Forecast Financing	**9,916**	**10,519**	**9,860**	**10,154**	**10,278**	
Forecast surplus(-)/deficit for year	**- 1,122**	**- 844**	**289**	**266**	**269**	
Reserves						
Forecast surplus/deficit (-) for year from above:	1,122	844	- 289	- 266	- 269	
Less: Approved Contribution to M55 Link Road Reserve	- 41					
Less: Proposed Transfer to Capital Investment Reserve	- 1,081	- 844				
Balance of surplus/deficit(-) remaining:			- 289	- 266	- 269	
Balance of General Fund Reserves b/f	3,548	3,548	3,548	3,259	2,993	
Less transfer to/from(-) General Fund Reserves in year			- 289	- 266	- 269	
Forecast Reserves at Year End	**3,548**	**3,548**	**3,259**	**2,993**	**2,724**	
Band D Council Tax (Excl Parish Precepts)	**£195.76**	**£201.61**	**£206.60**	**£211.59**	**£216.58**	
Band D Average Council Tax Increase	**£4.99**	**£5.85**	**£4.99**	**£4.99**	**£4.99**	
Band D Average Council Tax Increase	**2.6%**	**2.99%**	**2.5%**	**2.4%**	**2.4%**	

Appendix B

General Base Budget Assumptions

The forecast has been prepared on the basis of the following assumptions:

- General Prices Inflation – a freeze or cash-limiting of all general revenue expenditure budgets with the exception of pay, fuel & utility budgets;
- Slippage - underspend items from 2017/18 agreed by the Finance and Democracy Committee in June 2018 have been slipped into 2018/19;
- Pay award - assumed to be 2% per annum for 2018/19 onwards;
- Employers Pension Contributions – the Council's contribution to the Lancashire pension fund scheme is set in accordance with the estimated outcome of the 2016 Triennial Pension Review at 15.2% plus 9% deficit recovery lump sum payment for the period to 2019/20; any amendments resulting from the final review will be reflected in later updates to the Financial Forecast;
- Employer's National Insurance contributions – the forecast reflects the statutory contribution rates currently in place, including a reduced contribution rate as a result of the Council being part of the pension scheme;
- Council tax increases – 2.99% increase assumed per annum from 2019/20 onwards;
- Government Grant Support – the forecast assumes central government funding is as notified in the illustrative four-year funding settlement announced in January 2018, amended for known changes in respect of retained Business Rates and New Homes Bonus for 2018/19 onwards;
- Fees and Charges – The forecast takes account of the revised fee levels as approved by Budget Council in March 2018. For future years budget-holders have reviewed fee levels as appropriate and any proposed changes to fees & charges will be considered at the Budget Council in March 2019 following consideration by the appropriate programme committee;
- Vacancy Savings – the forecast assumes vacancy savings of £300k per annum from 2018/19 onwards;
- Localisation of Council Tax Benefit Scheme – the forecast assumes a fully funded scheme with no cost to the Council from 2018/19 onwards.

Appendix C

Forecast changes since Budget Council March 2018

		18/19 £000	19/20 £000	20/21 £000	21/22 £000	22/23 £000	ADVERSE / FAVOURABLE / NEUTRAL
1	**CHANGES AS A RESULT OF MEMBER APPROVALS:**						
	F&D Committee - 25/06/18 - Slippage from 2017/18	137	0	0	0	0	ADVERSE
	F&D Committee - 25/06/18 - Additional resource for beach bins	25	25	25	25	25	ADVERSE
2	**BUDGET RIGHTSIZING EXERCISE:**						
	Revenue impact of budget right-sizing across all budget areas of the Council	-54	-25	-188	-62	-76	FAVOURABLE
3	**UPDATED ESTIMATES OF INCOME BUDGETS:**						
	Revised Estimate - sand-winning income	-160	-100	-75	-50	-50	FAVOURABLE
	Revised Estimate - planning fee income	110	110	0	0	0	ADVERSE
	Additional Trade Waste Income	-25	-20	-20	-20	-20	FAVOURABLE
	Additional Fylde Waste Income	-31	-31	-31	-31	-31	FAVOURABLE
	VAT Refund - Leisure services	-180	0	0	0	0	FAVOURABLE
4	**STAFFING COSTS:**						
	Estimated 2% pay award for 2022/23	0	0	0	0	200	ADVERSE
5	**OTHER FORECAST CHANGES**						
	External audit fees - reduction in fee level	-6	-6	-6	-6	-6	FAVOURABLE
	Business Rates - impact of revised rating list from 2017/18	-9	17	17	17	17	ADVERSE
	Increase in GDPR registration fees	5	5	5	5	5	ADVERSE
	Business Rates Pooling Fee	2	2	0	0	0	ADVERSE
	Changes to Interest Receivable, Financing Costs and MRP adjustments	-73	-45	-28	-26	-1	FAVOURABLE
	Elections costs - increase in Borough Council Election costs 2019/20	0	34	0	0	0	ADVERSE
	Continuation of reduction in Housing Benefit Admin Grant	0	0	0	0	25	ADVERSE
	TOTAL	**-259**	**-34**	**-301**	**-148**	**88**	

Explanations of Forecast Changes set out in Appendix C **Appendix D**

The following notes relate to specific adjustments made to the Forecast set out in Appendix C

(1) Changes as a Result of Member Approvals

The forecast that was approved at the Council meeting in March 2018 has been updated to reflect the financial impact of Member decisions made since then. The significant decisions in financial terms of their effect are detailed within the body of the report.

(2) Impact of budget-right-sizing exercise across all budget areas of the Council

Each year officers carry-out a budget right-sizing exercise focussing on a review of underspends across all budget areas. This exercise has, as always, yielded in a significant level of favourable adjustments which have been reflected in the revised forecast.

(3) Updated income forecasts

The forecast has been updated to reflect additional income arising from a number of budget areas as detailed in Appendix C following a review of income budgets in consultation with budget-holders. Planning fee income levels are expected to reduce following a decline in the number of planning applications being received during the first part of the year.

(4) Staffing Costs – Pay Awards

The assumed 2% per annum pay award has been reflected in the final year of the forecast, 2022/23, in line with other years. This year is shown within the forecast for the first time as part of this November 2018 update.

(5) Other Forecast Changes:

External audit fees - reduction in fee level

The new external audit arrangement effective from the 2018/19 financial year (the replacement of KPMG with Deloitte LLP) has been achieved at reduced cost from that previously charged.

Business Rates

The Valuation Office Agency issued a revised rating list in 2017 that amended the rates payable for most properties, including a number of properties that are owned by the Council. This adjustment is necessary to ensure that there is sufficient budget resource for the revised level of rates payable across the Councils property holdings.

GDPR – Revised Fee Level

The new Data Protection regime incorporates a revised fee structure which increases the total cost to the Council of fees payable to the Information Commissioner’s Office.

Business Rate Pooling Fee

For each year that Fylde Council remains a member of the Lancashire-wide Business Rate pooling arrangements an administration fee is payable to the lead authority for the pool, Ribble Valley BC. With the assumption (as described within the body of this report) that Fylde Council will participate in the pooling arrangements for both 2018/19 and 2019/20 it is necessary to also make budget provision for the administration fee for those years.

Changes to Interest Receivable, Financing Costs and MRP adjustments

The forecast has been updated to reflect the latest estimate of investment interest received on cash balances and reserves which the Council invests as part of daily treasury management activities and changes to the expenditure profile within the Capital Programme. Interest earnings have increased as a result of the retention of higher cash balances than was anticipated.

Election Costs – Borough Council Elections 2019

The forecast has been updated to reflect the latest estimate of the costs of administering the 2019 Borough Council elections which has increases since the last Borough Council elections held in 2015.

Housing Benefit Admin Grant reduction

The level of grant that the Council receives from Central Government to administer the Housing Benefit system has been reducing year-on-year on the assumption that the phased introduction of Universal Credit will reduce caseload and consequently a lower level of reimbursement is required. Although no actual reduction in workload has yet been experience within the Benefits Shared Service the level of government grant received for this purpose remains on a downward trajectory.

Appendix E

Latest General Fund Budget Forecast 2018/19 to 2022/23

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Adverse / Favourable
Forecast approved at Council on 5th March 2018	9,675	10,149	10,420	10,547	10,547	
Forecast Changes - per Appendix C	- 259	- 34	- 301	- 148	88	**Favourable**
Forecast Budget Requirement	**9,416**	**10,115**	**10,119**	**10,399**	**10,635**	
Financed by:						
Council Tax Funding:						
Council Tax - Precept	5,998	6,281	6,554	6,839	7,134	
Council Tax - Share of Previous Years Surplus/(Deficit)	- 35					
Sub Total - Council Tax Income	*5,963*	*6,281*	*6,554*	*6,839*	*7,134*	
Business Rates Funding:						
Retained Rates (including assumed pooling benefit 2018/19 & 2019/20)	3,594	2,953	2,200	2,200	2,200	
Sub Total - Business Rates Income	*3,594*	*2,953*	*2,200*	*2,200*	*2,200*	
New Homes Bonus	1,349	1,379	1,476	1,399	1,348	
Less - NHB distribution to Town & Parish Councils	- 65					
Revenue Support Grant	47					
Less - Parish Element of Council Tax Support Funding	- 4					
Sub Total - Other Income	1,327	1,379	1,476	1,399	1,348	
Forecast Financing	**10,884**	**10,613**	**10,230**	**10,438**	**10,682**	
Forecast surplus(-)/deficit for year	**- 1,468**	**- 498**	**- 111**	**- 39**	**- 47**	
Reserves						
Forecast surplus/deficit (-) for year from above:	1,468	498	111	39	47	
Less: Proposed Transfer to Capital Investment Reserve	- 1,468	- 498				
Balance of surplus/deficit(-) remaining:	0	0	111	39	47	
Balance of General Fund Reserves b/f	3,685	3,685	3,685	3,796	3,835	
Less transfer to/from(-) General Fund Reserves in year			111	39	47	
Forecast Reserves at Year End	**3,685**	**3,685**	**3,796**	**3,835**	**3,882**	
Band D Council Tax (Excl Parish Precepts)	**£201.61**	**£207.63**	**£213.84**	**£220.24**	**£226.83**	
Band D Average Council Tax Increase	**£5.85**	**£6.02**	**£6.21**	**£6.40**	**£6.59**	
Band D Average Council Tax Increase	**2.99%**	**2.99%**	**2.99%**	**2.99%**	**2.99%**	