



DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
FINANCE	FINANCE AND DEMOCRACY COMMITTEE	25 th NOVEMBER 2019	4
FINANCIAL FORECAST UPDATE (INCLUDING REVENUE, CAPITAL & TREASURY MANAGEMENT) 2019/20 TO 2023/24			

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 2019/20 to 2023/24. It includes changes arising since the Budget was set by Council in March 2019.

RECOMMENDATIONS

The Committee is recommended:

1. To note the implications of this updated financial forecast.

SUMMARY OF PREVIOUS DECISIONS

The Council set its budget for 2019/20 at its meeting of 5th March 2019. 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 2019/20

At the Council meeting on the 5th March 2019 the budget for 2019/20 and the medium term financial forecast were agreed. The resolution included a 2.48% increase in the average Council Tax amounts and a total net budget requirement of £10.241m for 2019/20. The General Fund balance at that time was forecast at the end of 2022/23 to be £3.584m. In agreeing the Original Budget for 2019/20 a number of key high level financial risks and assumptions were highlighted.

(ii) General Fund Revenue Outturn Position 2018/19

The revenue outturn position for 2018/19 was reported to Members in June 2019. The impact of the outturn position, including slippage items in the total sum of £0.242m, has been reflected in this updated forecast.

The favourable outturn position for revenue for 2018/19 allowed for an additional contribution to be made into the Capital Investment Reserve in the sum of £0.530m.

(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 appropriate. The exercise includes an analysis of budget variances which have occurred over the last 3 financial years in order to identify structural changes 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 2018/19

The latest approved expenditure budget in the capital programme for 2018/19 was £17.577m. After adjusting for slippage of £2.479m, the overall outturn position for 2018/19 was an in-year favourable variance of £0.011m against the latest updated estimate.

(v) General Fund Revenue Quarterly Budget Monitoring 2019/20

Revenue budget monitoring reports for the period to 31st July 2019 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 and updated employee cost assumptions.

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 2019.
- 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 2018/19 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 financial forecast for the Council. 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 updates provides details of the most significant changes reflected in the forecast since the Budget Council meeting on 5th March:

3.4 Business Rates: Membership of the Lancashire Business Rates Pool 2020/21 and Future Year Income Estimates

In 2018/19 the government announced plans to introduce '75% Business Rate Retention' for all authorities with effect from 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 indicated that a significant net beneficial impact would result across Lancashire authorities. Consequently the Lancashire pool applied for inclusion in the pilot scheme and was subsequently accepted as a participant for 2019/20.

The implementation of the '75% Business Rate Retention' scheme is inextricably linked to the Local Government Spending Review which has now been delayed from 2019/20 to 2020/21 (see section 4 below)

Consequently, although there remains a degree of uncertainty at this stage, it is increasingly likely that the business rate regime that operates for 2020/21 will be a reversion to the arrangements that were in place for 2018/19 i.e. that the Lancashire Business Rate Pool would continue in a similar form for 2020/21 as at present, but without the further benefits of the '75% pilot' arrangements.

The latest in-year monitoring and future modelling strongly suggest that continued participation in a Lancashire Business Rate Pool for 2020/21 would be financially beneficial to Fylde Council. Consequently, the Finance and Democracy Committee of 23rd September 2019 approved:

1. The continuation of Fylde Council participation in the current Lancashire Business Rates Pool for 2020/21 on the assumption that the pool remains in existence; and
2. The continuation of Fylde Council participation in the '75% Business Rate Retention Pilot Scheme' arrangements for 2020/21 should that become an available option.

The nature of the Business Rate regime that will operate for 2020/21 will not be known definitively until the Local Government Financial Settlement for that year is announced in draft form, which has been delayed until after the December 2019 General Election.

Previously the Financial Forecast assumes that Fylde Council will participate in a Lancashire-wide pooling arrangement up to and including 2019/20 only. This has now been amended to assume continued participation in the arrangement for 2020/21.

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 Income from the Sale of Sand

Sand extraction from St Annes beach has been discontinued pending the resolution of uncertainties arising concerning regulatory requirements. The council will assess the appetite and scope for resuming the activity once those uncertainties have been resolved.

3.6 The Budget Right-sizing Exercise and further Transfers to Ear-marked Reserves

The Council meeting of 5th March 2019 approved transfers to the Capital Investment Reserve in 2018/19 and 2019/20 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 £1.399m for 2018/19 and £0.955m for 2019/20.

Following a favourable outturn position for 2018/19 and a review of the budget position for 2019/20 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 2019/20, currently stands at £0.721m as detailed at Appendix E. The revised forecast revenue surplus for 2020/21, also shown in Appendix E, is currently £1.109m.

4. **CENTRAL GOVERNMENT FUNDING AND THE LOCAL GOVERNMENT SPENDING REVIEW.**

Alongside the Local Government Finance Settlement for 2019/20, the Government had previously confirmed that it is looking to announce a multi-year financial settlement from April 2020 along with implementation of the Fair Funding Review, also with effect from April 2020. The review was designed to deliver a revised level of funding across local government from 2020/21 and was widely expected to result in shire district councils such as Fylde Council being regarded as requiring a reduced share of national resources.

However in August 2019 the government announced a single, one-year, spending review to give government departments "financial certainty" as they prepare for Brexit – which was at the time planned for October 31st 2019. A one-year settlement for 2020/21 is scheduled to be announced in the autumn of 2019 and the next multi-year Spending Review is now planned to be carried out in 2020 with implementation expected to be from 2021/22.

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:-

High Level Financial Impact Risk

- 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

Medium Level Financial Impact Risk

- 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

Low Level Financial Impact Risk

- 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) Future Central Government Funding

As detailed in Section 4 above 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.

In October 2019 the government published the 'Local Government Finance Settlement 2020-21: Technical Consultation'. Amongst a number of proposals the settlement consultation proposes a review of the New Homes Bonus scheme and the absence of legacy payments in respect of 2020/21 allocations i.e. the 2020/21 allocations will be for one year only and not annual allocations for a four year period as was the case for 2018/19 and 2019/20.

Given that New homes Bonus is a major source of funding for the Council this represents a significant risk to the overall level of future central government funding.

Currently we await the single year funding settlement for 2020/21 which is due to be announced in December 2019. It is likely that we will not have any certainty regarding funding beyond 2020/21 until the 2021/22 settlement is announced in late 2020, following the proposed Fair Funding Review (see below).

Until the conclusion of the Fair Funding Review, and notification of the Business Rates Retention and New Homes Bonus arrangements that will be in place following that review, there is a high degree of uncertainty as to the future levels of these sources of income for 2021/22 onwards. Consequently, as no further information is known regarding those future arrangements the projected levels of Retained Business Rates and New Homes Bonus for those years are shown within this Financial Forecast update at similar levels to those shown within the March MTFS report, adjusted for inflationary increases as appropriate.

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 now proposing to undertake the Fair Funding Review during 2020, with implementation of a revised funding mechanism being planned for 2021/22 (delayed from the intended review during 2019/20 and implementation from 2020/21).

The Government has previously 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.

(iii) Retained Business Rates

The decision to continue membership of the Lancashire Business Rates Pool for 2020/21, assuming that it is confirmed to continue in place for that year, will provide for additional retained Business Rate income for 2020/21 as compared to the financial forecast approved by Council in March 2019.

Previously the Financial Forecast assumes that Fylde Council will participate in a Lancashire-wide pooling arrangement up to and including 2019/20 only. This has now been amended to assume continued participation in the arrangement for 2020/21.

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) Pay Award

The updated forecast assumes staff pay awards of 2% per annum throughout the life of the forecast. It is possible that pay awards may be agreed in excess of 2%, which will incur additional costs beyond those currently budgeted for. Each additional 1% increase in pay equates to an estimated £100k additional cost on the pay bill per annum.

(iii) 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 2019/20 and for subsequent years.

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

(iv) 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 was intended to assume the role of the traditional Section 106 Agreement. A review of the operation of the CIL Regulations considered that the CIL process was too complex and uncertain and was acting as a barrier to the delivery of housing. Accordingly, on 1 September 2019, the Regulations that govern the introduction of CIL and its operation alongside Section 106 agreements were revised. Under the new arrangements, Section 106 Agreements will continue to have a role to play in securing essential infrastructure.

Fylde Council has commenced work on the introduction of a CIL, but this was placed on hold pending the adoption of the local plan and the publication of the updated Regulations. Now the revised Regulations have been published, work on a CIL for Fylde can recommence. However, this will have to await the partial revision of the local plan as a CIL will need to have regard to any revisions to, and a revised viability assessment of, the local plan. Until a CIL is adopted, Fylde will continue to utilise Sn 106 agreements in order to secure essential infrastructure.

Until the review of the Fylde Local Plan is completed, 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 2019 was £3.927m.

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 is summarised in Appendix E of this report. The position for 2019/20 is similar to that shown in the MTFS report to Budget Council in March 2019, but shows a significant improvement for 2020/21 largely resulting from the expectation that the Lancashire Business Rates pooling arrangement will continue for that year following the delay in the implementation of the Local Government Funding Review to 2021/22.

7.2 In light of the potential for future reductions in central government funding and uncertainties around the level of retained business rates from 2021/22 onwards as detailed within this report, 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 2019/20 financial year.
- 7.4 Budget planning work for 2020/21 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 surplus on the fund as at 31st March 2019 of £234k. This will be shared between Fylde Council, the County Council, the Police Authority and the Fire & Rescue Authority in 2019/20 & 2020/21. Fylde Council's share of the surplus is £30k which is reflected within Appendix E.
- 8.3 For Non-Domestic Rates only, there was a deficit on the fund as at 31st March 2019 of £429k. The deficit will be shared between Central Government, Fylde Council, the County Council and the Fire & Rescue Authority in 2019/20 & 2020/21. Fylde Council's share of the deficit is £172k 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 2019/20 to 2023/24 is set out in Table 1 below. The Programme has been updated for changes to the end of October 2019. 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 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000
Committee:					
Finance & Democracy Committee	38	0	0	0	0
Tourism & Leisure Committee	621	2,704	165	40	40
Operational Management Committee	11,291	640	197	366	1,001
Environment, Health & Housing Committee	1,780	1,130	1,130	1,130	1,130
Planning Committee	2,007	300	100	0	0
Total Capital Payments	15,737	4,774	1,592	1,536	2,171
Financing:					
Availability of Resources	15,737	4,774	1,592	1,536	2,171
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 budget is £21.8m, being funded by Flood Defence Grant-in-Aid (which is an Environment Agency eligible cost reimbursable grant) of up to £21.4m; alongside a contribution from Fylde Council of £0.4m.

Work started on site in December 2017 and has progressed well. The revised Contract Completion Date is December 2020, but it is anticipated that contract Completion will be closer to summer 2020.

In addition to the core sea defence works a range of public realm enhancements to the scheme have been added with a budget of £360k (plus an extra £50k for an automated car park barrier system), funded by Fylde Council from the Capital Investment Reserve.

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 2019/20 to 2023/24 within the Capital Programme totals £2.577m.

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 2019/20 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 2019/20 (including slippage from 2018/19) of £1.143m provides for the delivery of more disabled adaptations than has previously been possible. It is anticipated that for 2019/20 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 2019/20 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 2020/21.
- 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 2019 was £4.385m. Of this, £3.398m is committed to deliver existing approved capital schemes in future years, leaving an unallocated balance on the reserve of £0.987m.

Further transfers into the reserve in the total sum of £1.830m (£0.721m for 2019/20 and £1.109m for 2020/21) are currently estimated as shown in Appendix E to this report which would result in a revised unallocated balance on the reserve of £2.817m. These estimated transfers into the reserve are, of course, subject to change as actual expenditure and income levels will undoubtedly differ to the forecast amounts over the next two financial years.

13. TREASURY MANAGEMENT

- 13.1 The Treasury Management Strategy and Prudential Indicators were approved by Council on 5th March 2019.
- 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 14th November 2019 and subsequently will be presented to the next meeting of full Council.

14. KEY AREAS OF FINANCIAL RISKS FOR TREASURY MANAGEMENT

- 14.1 There are a number of potential areas of 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, shows projected surpluses for 2019/20 and 2020/21 followed by a period of uncertainty as the national framework for the financing of local government will be subject to review.
- 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 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 2019

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 2018/19 – 2022/2023	Budget Council meeting 5 th March 2019	www.fylde.gov.uk
MTFS – Outturn Position For 2018/19 (Including General Fund, Capital Programme & Treasury Management)	Finance and Democracy Committee meeting 24 th June 2019	www.fylde.gov.uk
Revenue Budget Monitoring Report 2019/20 – to 31 st July 2019	Finance and Democracy Committee meeting 23 rd September 2019	www.fylde.gov.uk
Capital Programme Monitoring Report 2019/20 – to 31 st July 2019	Finance and Democracy Committee meeting 23 rd September 2019	www.fylde.gov.uk

Attached Documents:

1. Appendix A – Forecast approved at Council on 5th March 2019
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

General Fund Budget Forecast 2018/19 to 2022/23 - Approved at Budget Council March 2019

	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 of March 2019 MTFS report	- 193	26	- 320	- 180	45	Favourable
Budget Proposals - per Appendix F of March 2019 MTFS report		66	66	66	66	Adverse
Forecast Budget Requirement	9,482	10,241	10,166	10,433	10,658	
Financed by:						
Council Tax Funding:						
Council Tax - Precept	5,998	6,212	6,472	6,742	7,023	
Council Tax - Share of Previous Years Surplus/(Deficit)	- 35					
Sub Total - Council Tax Income	5,963	6,212	6,472	6,742	7,023	
Business Rates Funding:						
Retained Rates (including pooling benefit 2018/19 & pilot impact 2019/20)	3,591	3,641	2,200	2,200	2,200	
Other Funding:						
New Homes Bonus	1,349	1,412	1,508	1,431	1,380	
Less - NHB distribution to Town & Parish Councils	- 65	- 69				
Revenue Support Grant	47					
Less - Parish Element of Council Tax Support Funding	- 4					
Sub Total - Other Income	1,327	1,343	1,508	1,431	1,380	
Forecast Financing	10,881	11,196	10,180	10,373	10,603	
Forecast surplus/deficit (-) for year from above:	1,399	955	14	- 60	- 55	
Forecast surplus/deficit (-) for year from above:	1,399	955	14	- 60	- 55	
Less: Proposed Transfer to Capital Investment Reserve	- 1,399	- 955				
Balance of surplus/deficit(-) remaining:	0	0	14	- 60	- 55	
Balance of General Fund Reserves b/f	3,685	3,685	3,685	3,699	3,639	
Less transfer to/from(-) General Fund Reserves in year			14	- 60	- 55	
Forecast Reserves at Year End	3,685	3,685	3,699	3,639	3,584	
Band D Council Tax (Excl Parish Precepts)	£201.61	£206.60	£212.77	£219.13	£225.68	
Band D Average Council Tax Increase	£5.85	£4.99	£6.17	£6.36	£6.55	
Band D Average Council Tax Increase	2.99%	2.48%	2.99%	2.99%	2.99%	

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 budgets;
- Slippage - underspend items from 2018/19 agreed by the Finance and Democracy Committee in June 2019 have been slipped into 2019/20;
- Pay award - assumed to be 2% per annum for 2019/20 onwards;
- Employers Pension Contributions – the Council's contribution to the Lancashire pension fund scheme is set in accordance with the estimated outcome of the 2019 Triennial Pension Review at 17.9%, plus deficit recovery lump sum payments for the period to 2022/23; 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 – amended to 1.99% limit from 2020/21;
- Government Grant Support – the forecast for 2019/20 assumes central government funding is as notified in the 2019/20 funding settlement announced in January 2019, amended for known changes in respect of retained Business Rates and New Homes Bonus for 2019/20 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 2020 following consideration by the appropriate programme committee;
- Vacancy Savings – the forecast assumes vacancy savings of £300k per annum from 2019/20 onwards;
- Localisation of Council Tax Benefit Scheme – the forecast assumes a fully funded scheme with no cost to the Council from 2019/20 onwards.

Appendix C

Forecast changes since Budget Council March 2019

	2019/20	2020/21	2021/22	2022/23	2023/24	
	£000	£000	£000	£000	£000	<u>ADVERSE /</u> <u>FAVOURABLE /</u> <u>NEUTRAL</u>
1 CHANGES AS A RESULT OF MEMBER APPROVALS:						
Council - 25/03/19 - BBQ PSPO's	38	38	38	38	38	ADVERSE
F&D Committee - 24/06/19 - Slippage from 2018/19	242	0	0	0	0	ADVERSE
Council - 14/10/2019 - Increase in Members Allowances	0	16	16	16	16	ADVERSE
2 BUDGET RIGHTSIZING EXERCISE:						
Revenue impact of budget right-sizing across all budget areas of the Council	-35	-101	-165	-183	-117	FAVOURABLE
3 UPDATED ESTIMATES OF INCOME BUDGETS:						
Reduction in budgeted income from sandwinning	200	375	350	350	350	ADVERSE
Reduction in planning application revenue fee income	25	75	75	75	75	ADVERSE
Revised investment interest income	-91	-25	-17	-13	-11	FAVOURABLE
Reduction in Game Site Fee Income at Fairhaven - Coast protection Works	11	0	0	0	0	ADVERSE
Additional Income - green waste subscription service	-9	-10	-10	-10	-10	FAVOURABLE
Additional Income - Fylde Waste	-5	-5	-5	-5	-5	FAVOURABLE
Additional Income - Trade Waste service	-20	-20	-20	-20	-20	FAVOURABLE
Additional Income - Assets & Leases	-51	-53	-54	-54	-54	FAVOURABLE
Additional Income - Car Parking	-50	-50	-50	-50	-50	FAVOURABLE
Additional Income - Public Offices Car Park	-5	0	0	0	0	FAVOURABLE
4 STAFFING COSTS:						
Estimated 2% pay award for 2023/24	0	0	0	0	200	ADVERSE
5 OTHER FORECAST CHANGES						
Elections costs - Borough Council Election costs 2023/24	0	0	0	0	114	ADVERSE
Members Technology Allowance 2023/24	0	0	0	0	14	ADVERSE
Business Rates - FBC Sites	8	8	8	8	8	ADVERSE
Increase in insurance premiums	20	20	20	20	20	ADVERSE
Reduction in Housing Benefit and Council Tax Admin grants	0	4	8	12	31	ADVERSE
Additional Legal Fees budget requirement	40	0	0	0	0	ADVERSE
Additional Costs for Public Offices - delay in disposal	32	0	0	0	0	ADVERSE
Removal of contribution from Lancashire County Council for Lytham Institute	0	20	20	20	20	ADVERSE
Parks External Contracts - Cypress Point Contract Removal - 20/21 onwards	0	5	5	5	5	ADVERSE
TOTAL	350	297	219	209	624	

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 2019 has been updated to reflect the financial impact of Member decisions made since then.

(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 budget variations across all budget areas. This exercise has yielded a level of favourable adjustments which have been reflected in the revised forecast.

(3) Updated income forecasts

The forecast has been updated to reflect revised income expectations arising from a number of budget areas as detailed in Appendix C following a review of income budgets in consultation with budget-holders. The main change is the loss of income from sand-winning which is detailed within the body of the report. Additionally, 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, 2023/24, in line with other years. This year is shown within the forecast for the first time as part of this November 2019 update.

(5) Other Forecast Changes:

Election Costs / Members Technology Allowance

The costs of holding the planned borough-wide Council elections in May 2023, along with the accompanying payment of technology allowances to Members, have been brought into the final year of the forecast (the financial year 2023/24 forms part of the financial forecast for the first time at the November update).

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.

Insurance Premium Increase

A key determinant of the cost of the Council's numerous insurance policies is the annual payroll cost, which increases each year due to the annual pay award. This factor, together with a general increase in the cost of insurance across the industry, has led to a need to review and increase the insurance budget to ensure that the Council can continue to secure adequate levels of insurance cover.

Housing Benefit Administration 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 only limited actual reduction in workload has yet been experienced within the Benefits Shared Service the level of government grant received for this purpose remains on a downward trajectory.

Additional Legal Fees

Additional legal costs have been incurred in meeting counsel's fees to defend the council's position in a claim for reimbursement of a significant amount of business rates monies previously paid to Fylde Council. A further element relates to counsel's fees in the 'Neighbourhood Plan Challenge case', which the Council has won at all stages so far, but which may yet be taken to the Supreme Court. It has been necessary to increase the budget for legal fees to address this additional financial requirement.

Former Public Offices building – Additional Costs

It was previously anticipated that the disposal of the former public offices building would have occurred during the 2019/20 financial year. Accordingly only a proportion of the annual maintenance costs for the empty building (business rates, security, insurance, etc.) were provided for in the original budget for 2019/20. Disposal is not now anticipated until towards the end of the financial year and it has been necessary, therefore, to increase the budget to provide for these costs.

Removal of Lancashire County Council (LCC) contribution – Lytham Institute

Under the previous user rights agreement with Lancashire County Council (LCC) for the use of part of the building as a public library, LCC were required to reimburse Fylde Council for a proportion of the costs for the running of the building. LCC have now terminated the agreement and as such will no longer be required to meet a proportion of the running costs of the building.

Cypress Pont Grounds Maintenance contract removal

After the current financial year the Council will no longer be delivering the Grounds Maintenance contract for the Cypress Point development. Consequently the contribution to overheads that previously arose from the contract have been removed from the budget from that point onwards.

Latest General Fund Budget Forecast 2019/20 to 2023/24

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Adverse / Favourable
Forecast approved at Council on 5th March 2019	10,241	10,166	10,433	10,658	10,658	Adverse
Forecast Changes - per Appendix C	350	297	219	209	624	
Forecast Budget Requirement	10,591	10,463	10,652	10,867	11,282	
Financed by:						
<u>Council Tax Funding:</u>						
Council Tax - Precept	6,212	6,420	6,623	6,832	7,046	
Council Tax - Share of Previous Years Surplus/(Deficit)						
Sub Total - Council Tax Income	6,212	6,420	6,623	6,832	7,046	
<u>Business Rates Funding:</u>						
Retained Rates (including pooling benefit & pilot impact 2019/20)	3,757	3,427	2,200	2,244	2,289	
Sub Total - Business Rates Income	3,757	3,427	2,200	2,244	2,289	
New Homes Bonus	1,412	1,801	1,431	1,380	1,380	
Less - NHB distribution to Town & Parish Councils	- 69	- 76				
Sub Total - Other Income	1,343	1,725	1,431	1,380	1,380	
Forecast Financing	11,312	11,572	10,254	10,456	10,715	
Forecast surplus(-)/deficit for year	- 721	- 1,109	398	411	567	
<u>Reserves</u>						
Forecast surplus/deficit (-) for year from above:	721	1,109	- 398	- 411	- 567	
Less: Proposed Transfer to Capital Investment Reserve	- 721	- 1,109				
Balance of surplus/deficit(-) remaining:	0	0	- 398	- 411	- 567	
Balance of General Fund Reserves b/f	3,927	3,927	3,927	3,529	3,118	
Less transfer to/from(-) General Fund Reserves in year			- 398	- 411	- 567	
Forecast Reserves at Year End	3,927	3,927	3,529	3,118	2,551	
Band D Council Tax (Excl Parish Precepts)	£206.60	£210.71	£214.91	£219.19	£223.56	
Band D Average Council Tax Increase	£4.99	£4.11	£4.20	£4.28	£4.37	
Band D Average Council Tax Increase	2.48%	1.99%	1.99%	1.99%	1.99%	