



DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	FINANCE AND DEMOCRACY COMMITTEE	28 JANUARY 2019	4
FINANCIAL FORECAST UPDATE 2018/19 TO 2022/23 (POSITION AS AT JANUARY 2019)			

PUBLIC ITEM

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

SUMMARY

This report provides Members with an update of the financial forecast for the five years 2018/19 to 2022/23.

The main purpose of this update to the Financial Forecast is to reflect the impact of the provisional 2019/20 Local Government Finance Settlement, details of which were announced on 13th December 2018.

The bid by Lancashire councils to be selected as one of the '75% Business Rate Retention Pilot' schemes for 2019/20 was confirmed as successful as part of the settlement announcement, the implications of which are set out in the report.

The proposed change in the calculation methodology for New Homes Bonus (and the consequential reductions in the level of New Homes Bonus income in future years under the proposed revised arrangements) on which the government has consulted at various times, has not been implemented for 2019/20. Whilst this is welcomed and provides clarity in respect of 2019/20 the government may at some point amend the way in which the scheme operates for future years.

The assumptions set out in this forecast are the latest best estimates and will be updated as and when further information is made available.

RECOMMENDATION

The Committee is recommended :

1. To note the implications of this updated financial forecast, and to also note that this update report will be presented to the Council meeting on 11th February 2019.

SUMMARY OF PREVIOUS DECISIONS

The Council set its budget for 2018/19 at the meeting of 5th March 2018. This report provides Members with a further update to the financial forecast following the position that was considered by this Committee in November 2018 & by Council in December 2018.

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 updates the financial forecast which was considered by this Committee in November 2018 & by Council in December 2018. Attached at Appendix A is the financial forecast position reported to Members at that time. Appendix B shows the general assumptions underpinning the base forecast, whilst Appendix C sets out the latest changes and Appendix D sets out the supporting narrative to the latest changes. **Appendix E details the latest updated forecast position.**
- 1.2 The forecast has been updated to reflect the impact of the 2019/20 Local Government Finance Settlement, announced on 13th December 2018, and the decisions of Council at its meeting of 10th December 2018, including the continuation of the scheme for New Homes Bonus Grant distribution to town and parish councils to reflect growth in property numbers.
- 1.3 This latest financial forecast update is designed to:
 - Present an updated five-year financial forecast for revenue and capital spending following the announcement of the Local Government Finance Settlement in December 2018;
 - 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. THE CAPITAL PROGRAMME

- 2.1 The latest in-year position on the Capital Programme, along with the associated financial risks, is contained within a separate report for consideration at this meeting and has also been reported to each of the Programme Committees as part of the January cycle of meetings.
- 2.2 Any future capital financing issues facing the Council will be addressed as part of the Council's budget proposals for 2019/20 which will be published in mid-February 2019.

3. KEY CHANGES TO THE GENERAL FUND REVENUE BUDGET FORECAST

- 3.1 Many of the financial risks as set out in the Financial Forecast update considered by this Committee in November 2018 and by Council in December 2018 still remain. The changes to the General Fund Revenue Forecast are those arising from the Local Government Finance Settlement, together with some further in-year revenue budget changes. These are detailed below:

i) **The 2019/20 Local Government Finance Settlement**

The main document detailing the Local Government Finance Settlement is entitled 'Provisional local government finance settlement: England, 2019 to 2020'. Full details of the settlement can be found at the following link: [Finance Settlement 2019 to 2020](#)

The key points arising from the Finance Settlement for Fylde Council are:

a) Confirmation of acceptance of the bid by Lancashire authorities to form part of the '75% Business Rate Retention Pilot Scheme' arrangements for 2019/20

As part of the 2019/20 budget consultation fourteen Lancashire Councils as well as the Lancashire Fire & Rescue Service submitted a bid to be included in a 75% business rates retention pilot scheme. On 13th December 2018 it was announced that this bid has been successful.

Under the current pooling arrangements business rate income raised in Fylde is first split with 50% going to the government and the rest being shared between Fylde Council (40%), LCC (9%) and Lancashire Fire and Rescue Service (1%). Under the pilot scheme this initial split will change to 25% government and 75% local preceptors. This increases the reward possible from growth of business rate income, but there is also a greater risk of adverse consequences if income declines.

This increased split means the members of the Lancashire pilot are expected to increase the estimated share of business rate income retained by a total of £9.6m in 2019/20. District Councils such as Fylde will see their initial allocation increase from 40% under the current system to 56% under the pilot arrangements.

The ADDITIONAL growth in retained business rate income under the pilot scheme will first be top sliced as follows:

- Initially, 5% of additional growth will be set aside to provide a resilience fund that will mitigate against any losses in business rate income for participating authorities should their income fall below baseline funding levels;
- A further 25% of the additional growth will then be set aside to create a Lancashire-wide fund to be used to target strategic economic growth and to improve financial sustainability within the county. This will be allocated based on decisions of the Lancashire Leaders Business Rates Pilot Group.

It is currently estimated that the residual additional growth retained by Fylde as a result of these arrangements will be £370k in 2019/20. **The beneficial effect of this is reflected in the updated Financial Forecast summary as shown at Appendix E to this report together with the estimated impact of the latest in-year business rate income monitoring.**

The government continues its ambition to implement a new 75% business rates retention scheme for **all** local authorities by 2020/21. The current pilot is expected to benefit the Council in terms of retaining more business rate income in 2019/20. However the final scheme for future years from 2020/21 onwards will differ predominately for two reasons:

- The current pilot uses historic baseline funding levels; however the result of the Government's fair funding review (see para **d**) below) will see this baseline

adjusted via a scheme “reset” with the potential for Fylde Council to receive less of its retained business rate income, and

- The government may introduce a less favourable split between lower and upper tier authorities than is currently the case in the pilot arrangements.

The government is consulting on the reforms due to be implemented in 2020/21, and at this stage the forecast assumes a reduced level of business rate income closer to the current baseline level until details of the outcome of the fair funding review are known.

b) Confirmation of the 2019/20 General Council Tax Referendum Principles

As part of the 2018/19 Finance Settlement the government increased the general council tax referendum principle (the upper limit on the year-on-year increase that can be applied without the requirement for prior approval through a local referendum) from 1.99% to 2.99% for 2018/19 and 2019/20. For shire district councils such as Fylde Council, the council tax referendum principle that applies is therefore the higher of 2.99% or £5 for a Band D property in 2018/19 and 2019/20. An increase of 2.99% for 2019/20 for Fylde equates to £6.02 for a Band D property.

The Financial Forecast currently assumes a 2.99% increase (at average band D) for each year of the forecast. This will be kept under review and any amendment to this assumption will form part of a future update to this Financial Forecast.

Referendum principles will not be extended to town and parish councils for 2019/20, but could be applied to these councils in future years.

c) No Change to the New Homes Bonus arrangements

The Government has refrained from introducing further reform to the calculation methodology in respect of New Homes Bonus. The proposal to introduce further reform, including a change to the 0.4% baseline level and an option to withhold New Homes Bonus in respect of properties built following an appeal to the Planning Inspectorate, formed part of an earlier consultation on the operation of the scheme.

If introduced as proposed the changes would have reduced the total New Homes Bonus that Fylde Council would receive and consequently the continuation of the current arrangements is welcomed.

The future forecast of New Homes Bonus income has been reviewed in the light of the latest available information on property numbers and updated forecast amounts are contained within the revised summary Financial Forecast at Appendix E to this report.

d) Announcement of a ‘Fair Funding Review’.

Alongside the Local Government Finance Settlement, the Government confirmed that it is looking to implement the Fair Funding Review in April 2020 and published the [Fair Funding Review Consultation](#). This consultation:

- proposes to simplify the assessment of local authorities’ relative needs;
- considers the type of adjustment that will be made to an authority’s relative needs assessment to take account of the relative resources available to them to fund local services; and
- proposes a set of principles that will be used to design potential transitional arrangements and examines how the baseline for the purposes of transition should be established.

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) Other Revenue Budget Adjustments

a) New Homes Bonus Distribution to Town and Parish Councils

The Council meeting of 10th December 2018 approved the continuation of the scheme for the distribution of a portion of the New Homes Bonus Grant income to town and parish Councils. The financial consequence of this decision is contained within the summary Financial Forecast at Appendix E to this report.

b) Other budget adjustments

A limited number of further budget adjustments have been made to this updated financial forecast update, including confirmation of the actual level of income relating to the chargeable green waste collection service for 2018/19 now that subscriptions for the current year have ended. These are included within the variance analysis at Appendix C to this report and an explanation of each is provided at Appendix D. Council Tax income projections have also been updated from the December financial forecast to reflect the actual Council Tax base information for 2019/20 which was finalised in December 2018.

3.2 Other Continuing Financial Risks

Many of the other financial risks that were detailed within the previous Financial Forecast Update that was presented to the Council in December 2018 still remain. These are:

- **Future Central Government Funding Reductions**
- **Announcement of a 'Fair Funding Review'**
- **Retained Business Rates**
- **Borrowing Costs Assumptions**
- **Reduction in Housing Benefit Administration Grant**
- **Universal Credit**
- **Grounds Maintenance (External Contracts)**
- **The Living Wage**
- **Community Infrastructure Levy (CIL)**

Full details of each of these can be found within the December 2018 Financial Forecast report via the following link: www.fylde.gov.uk/

4. **CONCLUSIONS**

4.1 The 2019/20 Local Government Financial Settlement has provided a degree of improvement, but has not fundamentally changed, the general financial standing of Fylde Council. There remains (as reported in the December 2018 Financial Forecast update) a projected surplus for each of the years up to and including 2022/23.

4.2 The confirmation of the success of the bid by Lancashire authorities to participate in the 75% Business Rate Retention pilot scheme is welcomed, as is the decision not to further amend the calculation methodology in respect of New Homes Bonus. Developments with regard to the more distant proposals (the implementation of a 'Fair Funding Review', encompassing a

possible re-assessment of relative need within local government generally) will be followed closely and any implications reported within future Financial Forecast updates when known.

- 4.3 In order to maintain the current financial position, 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 in recent years 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.
- 4.4 Although it is clear that further uncertainty lies ahead, **the finances of the Council remain robust and 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 financial challenges as they arise. The Council will continue to seek opportunities to maintain a robust financial position in the face of a 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.
- 4.5 The assumptions set out in this forecast are the latest best estimates and will be updated as and when further information becomes available.

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	January 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 2017/18 – 2021/2022	Budget Council meeting 5 th March 2018	www.fylde.gov.uk
MTFS – Outturn Position For 2017/18 (Including General Fund, Capital Programme & Treasury Management)	Finance and Democracy Committee meeting 25 th June 2018	www.fylde.gov.uk
Revenue Budget Monitoring Report 2018/19 – to 31 st July 2018	Finance and Democracy Committee meeting 24 th September 2018	www.fylde.gov.uk
Capital Programme Monitoring Report 2018/19 – to 31 st July 2018	Finance and Democracy Committee meeting 24 th September 2018	www.fylde.gov.uk
Medium Term Financial Strategy (MTFS) Update, Including General Fund, Capital Programme and Treasury Management for 2018/19 – 2022/23	Council meeting 10 th December 2018	www.fylde.gov.uk

Attached documents

1. Appendix A – Forecast approved at Council on 10th December 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

General Fund Budget Forecast 2018/19 to 2022/23 - 10th December 2018

	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 December 2018 MTFS report	- 259	- 34	- 301	- 148	88	
Forecast Budget Requirement	9,416	10,115	10,119	10,399	10,635	Favourable
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 Funding	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 net of reserve transfers	3,594	2,953	2,200	2,200	2,200	
Council Tax Freeze Grant relating to 2015/16 freeze						
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 Funding	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%	

General 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 draft Local Government funding settlement announced in December 2018;
- 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;
- Employee Cost Savings (including Vacancy Savings) – the forecast assumes Employee Cost 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 December 2018 Council Meeting

	<u>18/19</u> <u>£000</u>	<u>19/20</u> <u>£000</u>	<u>20/21</u> <u>£000</u>	<u>21/22</u> <u>£000</u>	<u>22/23</u> <u>£000</u>	<u>ADVERSE /</u> <u>FAVOURABLE /</u> <u>NEUTRAL</u>
1 <u>CHANGES AS A RESULT OF MEMBER APPROVALS:</u>						
Lowther potential additional subsidy - as approved at Council 19th November 2018	175	0	0	0	0	ADVERSE
2 <u>UPDATED ESTIMATES OF INCOME BUDGETS:</u>						
Additional income from green waste subscription service	-18	-18	-18	-18	-18	FAVOURABLE
TOTAL	157	-18	-18	-18	-18	

Appendix D

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

(1) Additional Subsidy to Lowther Trust in 2018/19

The payment of an additional subsidy to Lowther Trust for 2018/19 (up to a maximum potential sum of £175k) as approved by Council in November 2018 is now included within this updated Financial Forecast.

(2) Additional income from green waste subscription service

Confirmation of the actual level of income relating to the chargeable green waste collection service for 2018/19 (now that subscriptions for the current year have ended) shows a favourable variance against the budget of £18k. The final number of subscriptions for 2018/19 was 17,850 producing a total actual income for the service of £535,500. The income estimates for the current and all future years have been updated to reflect this increased projected level of income.

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 10th December 2018	9,416	10,115	10,119	10,399	10,635	
Forecast Changes - per Appendix C	157	- 18	- 18	- 18	- 18	
Forecast Budget Requirement	9,573	10,097	10,101	10,381	10,617	Adverse
Financed by:						
<i>Council Tax Funding:</i>						
Council Tax - Precept	5,998	6,243	6,505	6,776	7,058	
Council Tax - Share of Previous Years Surplus/(Deficit)	- 35					
<i>Sub Total - Council Tax Income</i>	5,963	6,243	6,505	6,776	7,058	
<i>Business Rates Funding:</i>						
Retained Rates (including pooling benefit 2018/19 & pilot impact 2019/20)	3,591	3,641	2,200	2,200	2,200	
<i>Sub Total - Business Rates Income</i>	3,591	3,641	2,200	2,200	2,200	
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					
<i>Sub Total - Other Income</i>	1,327	1,343	1,508	1,431	1,380	
Forecast Financing	10,881	11,227	10,213	10,407	10,638	
Forecast surplus(-)/deficit for year	- 1,308	- 1,130	- 112	- 26	- 21	
<u>Reserves</u>						
Forecast surplus/deficit (-) for year from above:	1,308	1,130	112	26	21	
Less: Proposed Transfer to Capital Investment Reserve	- 1,308	- 1,130				
Balance of surplus/deficit(-) remaining:	0	0	112	26	21	
Balance of General Fund Reserves b/f	3,685	3,685	3,685	3,797	3,823	
Less transfer to/from(-) General Fund Reserves in year			112	26	21	
Forecast Reserves at Year End	3,685	3,685	3,797	3,823	3,844	
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%	