



DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
RESOURCES DIRECTORATE	FINANCE AND DEMOCRACY COMMITTEE	22 JANUARY 2018	4
FINANCIAL FORECAST UPDATE 2017/18 TO 2021/22 (POSITION AS AT JANUARY 2018)			

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 2017/18 to 2021/22.

It now includes the impact of the 2018/19 Local Government Finance Settlement, details of which were announced on 19th December 2017. For Fylde Council the settlement largely confirmed the draft settlement figures provided earlier in the year.

The operation of the Lancashire Business Rate pooling arrangements for 2018/19, which is currently reflected in the latest Financial Forecast, was confirmed as part of the settlement announcement.

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 consulted during 2017, has not been implemented for 2018/19. Whilst this is welcomed for 2018/19 the government may at some point amend the way in which the scheme operates for future years.

Additionally the settlement contained some modest changes in retained Business Rate income for 2018/19 arising partly from changes to the regime of reliefs and discounts introduced during 2017.

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 5th February 2018.

SUMMARY OF PREVIOUS DECISIONS

The Council set its budget for 2017/18 at the meeting of 2nd March 2017. This report provides Members with a further update to the financial forecast following the position that was considered by this Committee in November 2017 & Council in December 2017.

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 2017 & by Council in December 2017. 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 2018/19 Local Government Finance Settlement, announced on 19th December 2017, and the decisions of Council at its meeting of 4th December 2017, including the introduction of a new system of New Homes Bonus 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 2017;
 - 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 2018/19 which will be published in mid-February 2018.

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 2017 and by Council in December 2017 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 2018/19 Local Government Finance Settlement**

The main document detailing the Local Government Finance Settlement is entitled 'Provisional local government finance settlement: England, 2018 to 2019'. Full details of the settlement can be found at the following link: <https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2018-to-2019>

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

a) Confirmation of the continuation of the Lancashire Business Rate Pool for 2018/19

The uncertainty surrounding the continuation of the Lancashire Business Rate Pool for 2018/19 was detailed within the December 2017 Financial Forecast update. Previously the Financial Forecast assumed that the pool would operate for 2018/19 but no pooling benefit had been assumed beyond 2018/19. **The continuation of the pool for 2018/19 was confirmed as part of the 2018/19 Local Government Finance Settlement.**

The viability of local business rate pools beyond 2018/19 remains uncertain and consequently it is prudent to retain the assumption that there will be no pooling benefit beyond 2018/19. The matter will be kept under close review and any change in this expectation will be detailed within future updates to the Financial Forecast.

b) Increase to the General Council Tax Referendum Principle

As part of the 2018/19 Finance Settlement the government has 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 2018/19 for Fylde equates to £5.85 for a Band D property.

The Financial Forecast currently assumes a £5 increase (at average band D) which equates to an annual increase of approximately 2.5%. 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 2018/19 nor for the subsequent two year period, but could be applied to these councils from 2021/22.

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 a wider consultation on the draft 2018/19 Finance Settlement, as detailed within the December Financial Forecast update report.

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) Future arrangements for Local Retention of Business Rates

The Government has previously stated its intention to introduce a revised scheme of '100% Business Rate Retention' with effect from 2019/20 and a number of local authorities have been serving as pilot authorities for such an arrangement.

As part of the Local Government Finance Settlement the government announced that it plans to introduce '75% Business Rate Retention' for all authorities with effect from 2020/21.

Clearly some of the earlier proposals have been amended and the timescale has moved back by a year. However the detailed proposals have not yet been announced and the impact on the financial position of Fylde Council is as yet unquantifiable.

The development of this proposal will be kept under review and any financial consequences will be reflected within future updates to the Financial Forecast as they become apparent.

e) 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 consultation:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669440/Fair_funding_review_consultation.pdf

This consultation focuses 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) Other Revenue Budget Adjustments

a) New Homes Bonus Distribution to Town and Parish Councils

The Council meeting of 4th December 2017 approved a new 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) Assumptions regarding future years Pay Awards.

The Financial Forecast update presented at the December Council meeting contained an updated estimate in respect of pay awards for 2018/19 and future years of 1.5% per annum. Subsequently an offer has been made by the employer negotiating body of a general

increase of 2% for 2018/19 and 2019/20, along with further increases at lower pay-grade levels. Consequently the Financial Forecast has been updated to now include an anticipated pay award of 2% per annum in each year from 2018/19.

c) Updated Business Rate Income Forecast

The forecast business rate income has been updated to reflect additional payments to local authorities from 2017/18 onwards. These payments are to reimburse councils for reduced levels of business rates income that will be collected as a consequence of the changes to small business rate relief that were introduced as part of the March 2017 budget announcement.

Additionally the in-year monitoring of income has identified a degree of local business rate growth and a continuing reduction in the value of the provision for losses on appeal, which is reflected in the revised Financial Forecast at Appendix E for 2018/19 only (the Collection Fund accounting mechanism through which business rate income is processed results in a timing delay in the period in which in-year income received is reflected within the General Fund).

Business rate income will continue to be closely monitored and any changes to income expectations will be detailed within future updates to the Financial Forecast.

d) Other budget adjustments

A number of further budget adjustments have been made to this updated financial forecast update. 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 include the actual Council Tax base information for 2018/19 which was finalised in December 2017.

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 2017 still remain. These are:

- **Future Central Government Funding Reductions**
- **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 2017 Financial Forecast report via the following link: www.fylde.gov.uk/

4. CONCLUSIONS

4.1 The 2018/19 Local Government Financial Settlement has not fundamentally changed the general financial standing of Fylde Council. There remains (as reported in the December 2017 Financial Forecast update) a projected surplus for the current year and 2018/19, with deficits being projected for 2019/20 and beyond.

4.2 The confirmation of the Lancashire Business Rate Pool for 2018/19 is welcomed, as it the decision not to further amend the calculation methodology in respect of New Homes Bonus.

Developments with regard to the more distant proposals (in respect of further reform to the Business Rate Retention scheme and 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 light of the budget challenges that will need to be addressed in the later years of the forecast, 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.
- 4.4 Although it is clear that further challenges lie ahead in the later years of the financial forecast, **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 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 2016/17 – 2020/210	Budget Council meeting 2nd March 2017	www.fylde.gov.uk
MTFS – Outturn Position For 2016/17 (Including General Fund, Capital Programme & Treasury Management)	Finance and Democracy Committee meeting 19th June 2017	www.fylde.gov.uk
Revenue Budget Monitoring Report 2017/18 – to 31 st July 2017	Finance and Democracy Committee meeting 25 th September 2017	www.fylde.gov.uk
Capital Programme Monitoring Report 2017/18 – to 31 st July 2017	Finance and Democracy Committee meeting 25 th September 2017	www.fylde.gov.uk
Medium Term Financial Strategy (MTFS) Update, Including General Fund, Capital Programme and Treasury Management for 2017/18 – 2021/22	Council meeting 4 th December 2017	www.fylde.gov.uk

Attached documents

1. Appendix A – Forecast approved at Council on 4th December 2017
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 2017/18 to 2021/22 - 4th December 2017

	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 December 2017 MTFS report	- 99	- 69	- 23	28	137	Favourable
Forecast Budget Requirement	8,881	9,637	10,054	10,284	10,393	
Financed by:						
Council Tax Funding:						
Council Tax - Precept	5,733	5,969	6,200	6,434	6,673	
Council Tax - Share of Previous Years Surplus/(Deficit)	40					
Sub Total - Council Tax Funding	5,773	5,969	6,200	6,434	6,673	
Business Rates Funding:						
Retained Rates (including pooling benefit & contbtn from CF deficit reserve)	3,880	2,816	2,195	2,195	2,195	
Approved Contribution to Funding Volatility Reserve	- 2,000					
Sub Total - Business Rates net of reserve transfers	1,880	2,816	2,195	2,195	2,195	
Other Funding:						
New Homes Bonus	1,665	1,310	1,145	1,240	1,026	
Less - NHB distribution to Town & Parish Councils		- 66				
Revenue Support Grant	354	47				
Transition Grant	56					
Less - Parish Element of Council Tax Support Funding	- 27	- 4				
Sub Total - Other Funding	2,048	1,287	1,145	1,240	1,026	
Forecast Financing	9,701	10,072	9,540	9,869	9,894	
Forecast surplus(-)/deficit for year	- 820	- 435	514	415	499	
Reserves						
Forecast surplus/deficit(-) for year from above:	820	435	- 514	- 415	- 499	
Less: Approved Contribution to M55 Link Road Reserve	- 41					
Less: Proposed Transfer to Capital Investment Reserve	- 779	- 435				
Balance of surplus/deficit(-) remaining:	0	0	- 514	- 415	- 499	
Balance of General Fund Reserves b/f	3,548	3,548	3,548	3,034	2,619	
Less transfer to/from(-) General Fund Reserves in year			- 514	- 415	- 499	
Forecast Reserves at Year End	3,548	3,548	3,034	2,619	2,120	
Band D Council Tax (Excl Parish Precepts)	£195.76	£200.75	£205.74	£210.73	£215.72	
Band D Average Council Tax Increase	£4.99	£4.99	£4.99	£4.99	£4.99	
Band D Average Council Tax Increase	2.62%	2.55%	2.49%	2.43%	2.37%	

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 2016/17 agreed by the Finance and Democracy Committee in June 2017 have been slipped into 2017/18;
- Pay award - assumed to be 1% per annum for 2017/18 and thereafter 2% per annum;
- 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 – an assumed increase of £4.99 per annum from 2017/18 onwards, which is the maximum increase allowable without triggering the need for a referendum;
- Government Grant Support – the forecast assumes central government funding is as notified in the illustrative four-year funding settlement announced in January 2017, amended for known changes in respect of retained Business Rates and New Homes Bonus for 2017/18 onwards;
- Fees and Charges – The forecast takes account of the 5% increase in car parking fees from April 2017 and of the planned increases in cemetery and crematorium fees. In respect of other services budget-holders have reviewed fee levels as appropriate and any proposed changes to fees & charges will be considered at the Budget Council in March 2018 following consideration by the appropriate programme committee;
- Vacancy Savings – the forecast assumes vacancy savings of £200k per annum from 2017/18 onwards;
- Localisation of Council Tax Benefit Scheme – the forecast assumes a fully funded scheme with no cost to the Council from 2017/18 onwards following a decision on the 2018/19 scheme that was agreed at the Council meeting in December 2017.

Appendix C

Forecast changes since Council December 2017

	<u>17/18</u>	<u>18/19</u>	<u>19/20</u>	<u>20/21</u>	<u>21/22</u>	<u>ADVERSE /</u> <u>FAVOURABLE /</u> <u>NEUTRAL</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	
1 BUDGET RIGHTSIZING EXERCISE:						
Revenue impact of budget right-sizing across all budget areas of the Council	-53	-24	-14	-8	-2	FAVOURABLE
2 UPDATED ESTIMATES OF INCOME BUDGETS:						
Updated estimate of income from CAMEO Scheme	-7	0	0	0	0	FAVOURABLE
Updated estimate of income from interments - reduced number of funerals	6	0	0	0	0	ADVERSE
Updated estimate of income from cremations - reduced number of cremations	37	0	0	0	0	ADVERSE
Miscellaneous Properties - additional rental income due to rent reviews	-15	-15	-15	-15	-15	FAVOURABLE
3 STAFFING COSTS:						
Estimated additional in-year savings from staff vacancies	-38	0	0	0	0	FAVOURABLE
Pay Award - Increase from assumed 1.5% to 2% per annum plus lower SCP increases	0	66	133	168	155	ADVERSE
4 OTHER FORECAST CHANGES						
External audit fees - saving from re-tendering exercise	0	-11	-11	-11	-11	FAVOURABLE
TOTAL	-70	16	93	134	127	ADVERSE

Appendix D

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

(1) Savings arising from a further review of all budget areas of the Council

A further review of budgets in recent months has highlighted some additional budget variances across a number of budget areas.

(2) Cameo Income – Lytham Crematorium

The Environment Agency national Cameo scheme for redistributing income to those authorities that have undergone crematoria replacement under the mercury abatement regulations (including Fylde Council) has not operated as intended and income to the council under the scheme is erratic and largely unpredictable. In December 2017 the Council was notified of a payment under the scheme in the current year which was unbudgeted and has resulted in this favourable variance.

(3) Reduced income - Lytham Cemetery and Crematorium

Both the number of cremations and of funerals held this year have been below expectations. The income budget has been raised year-on-year as previous income expectations have been exceeded and it is probable that the target has been set at too high a level for 2017/18. The budget for 2017/18 has therefore been reviewed and adjusted accordingly. The budget in respect of future years will be reviewed during 2018/19.

(4) Miscellaneous Properties - additional rental income

The rentals in respect of a number of Council-owned properties have been reviewed and total income has increased as a result of this review.

(5) Staffing Costs – Pay Awards

As a result of growing pressure from Trades Union and others for an end to the public sector pay cap (not least as a result of Consumer Price Inflation (CPI) running at around 3%) and a number of recent public sector pay awards in excess of the 1% level, the forecast has been amended to include pay awards for 2018/19 and future years of 2% per annum. This will be kept under review and future updates to the forecast will be amended to reflect the latest information on future pay award expectations.

(6) External Audit Fees

The recent national re-tendering exercise carried out by Public Sector Auditor Appointments Limited (PSAA) has resulted in costs savings in the fee levels payable to the external auditors of the Council, effective from 2018/19.

Appendix E

Latest General Fund Budget Forecast 2017/18 to 2021/22

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Adverse / Favourable
Forecast approved at Council on 4th December 2017	8,881	9,637	10,054	10,284	10,393	Adverse
Forecast Changes - per Appendix C	- 70	16	93	134	127	
Forecast Budget Requirement	8,811	9,653	10,147	10,418	10,520	
Financed by:						
Council Tax Funding:						
Council Tax - Precept	5,733	5,973	6,203	6,438	6,677	
Council Tax - Share of Previous Years Surplus/(Deficit)	40	- 35				
Sub Total - Council Tax Funding	5,773	5,938	6,203	6,438	6,677	
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	
Other Funding:						Adverse
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	10,494	9,834	10,128	10,252	
Forecast surplus(-)/deficit for year	- 1,105	- 841	313	290	268	
Reserves						
Forecast surplus/deficit (-) for year from above:	1,105	841	- 313	- 290	- 268	
Less: Approved Contribution to M55 Link Road Reserve	- 41					
Less: Proposed Transfer to Capital Investment Reserve	- 1,064	- 841				
Balance of surplus/deficit(-) remaining:	0	0	- 313	- 290	- 268	
Balance of General Fund Reserves b/f	3,548	3,548	3,548	3,235	2,945	Adverse
Less transfer to/from(-) General Fund Reserves in year			- 313	- 290	- 268	
Forecast Reserves at Year End	3,548	3,548	3,235	2,945	2,677	
Band D Council Tax (Excl Parish Precepts)	£195.76	£200.75	£205.74	£210.73	£215.72	
Band D Average Council Tax Increase	£4.99	£4.99	£4.99	£4.99	£4.99	
Band D Average Council Tax Increase	2.6%	2.5%	2.5%	2.4%	2.4%	