

Medium Term Financial Plan

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Medium Term Financial Plan **2019-2020 to 2022-2023**

A. Introduction

Financial planning is a key tool for strategic management and is an aid to operational decision making. Without financial planning the Council would be unlikely to achieve its priorities or make the best use of its resources. The Medium Term Financial Plan (MTFP) is a financial representation of the Council's vision and supports its priorities.

The Council's vision for the Borough is a healthy population with high aspirations, living in good quality housing with decent jobs in a diverse economy.

Given the severe constraints on Council income it is necessary to think and act more like a business, drive efficiencies from services, generate more income and support innovation and best practice within services. The Council has identified the following cross-cutting objectives to achieve efficient and effective services:

- Provide short and medium term financial stability in the General Fund by implementing the agreed 2016-2020 Budget Strategy;
- Measuring customer satisfaction with Council services;
- Developing a more cost effective procurement process by maximising the use of purchasing frameworks;
- Refreshing and implementing the Councils workforce strategy;
- Identifying opportunities to generate additional income;
- Provide training and support for innovation and adoption of best practice within services and requiring managers to demonstrate this.

In addition four thematic priorities have been identified as drivers to support the Councils vision:

- Developing the local economy to secure a long term economic future for all our community;
- A strong and vibrant town centre community;
- Closing the gap on health inequalities;
- Providing a greater choice of good quality housing and regenerating the oldest and poorest housing in the Borough.

This MTFP covers the period from 2019-2020 to 2022-2023. The level of Government support for the Council is known for 2019-2020 and the years beyond are based on this allocation whilst the funding formula and business rate baseline are consulted upon during 2019.

The Medium Term Financial Strategy is the financial representation of the Budget Strategy which aims to eliminate the deficit in the core budget. This will require the continued use of reserves to set the pace of change, fund transformation and achieve long term financial resilience.

Medium Term Financial Plan **2019-2020 to 2022-2023**

B. Planning Process

To ensure a robust and achievable Medium Term Financial Plan is established, the planning process covers a number of key aspects:

- Leadership – leading Members and the Management Board demonstrate strong leadership of finances and strategic direction.
- Priorities – the Medium Term Financial Plan reflects the Councils Vision which is supported by its Priorities.
- Ownership – the Director of Resources produces and updates the Medium Term Financial Plan.
- Achievement – the Director of Resources will monitor adherence to the Medium Term Financial Plan and will quantify and report any significant deviation to the Executive Committee and Management Board.
- Risk management – the Medium Term Financial Plan highlights the key considerations in terms of finance and refers to the Reserves and Balances Policy for the risk assessment of financial reserves.
- Efficiencies – Management Board will continue to pursue efficiencies and eliminate these from the core budget. This is an on-going process.
- Completeness – the Medium Term Financial Plan incorporates the Council Priorities, the Budget Strategy, the Budget Setting process for revenue, capital and treasury management, and the Council Tax setting.
- Relevance – the Medium Term Financial Plan will be reviewed periodically throughout the financial year and revised for known financial impacts. This includes a review once the previous financial year outturn is known.

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C. Budget Strategy and Funding

Since the reductions in the local government financial settlement started in 2011, the Council will have reduced its core budget by £7.7m by March 2020; this is the cumulative position incorporated into the 2019-2020 revenue budget.

The changes that have enabled the budget reduction to be sustained include:

- Management Team and Management Board reduced by 50%
- Staffing reduced by 20%
- Service delivery model changes:
 - Revenues and Benefits service brought in-house after 20 years
 - Leisure Centre outsourced for the first time
 - Internal Audit service brought in-house
 - Payroll service brought in-house
- Better procurement including major contract renewals
- Rationalisation of service delivery
- Income reviewed and income policy established
- Opportunities for commercial estate maximised
- Treasury management
- Process efficiencies and cost saving measures

The Budget Strategy also includes the prudent use and protection of reserves; where necessary reserves are used to support the revenue budget whilst the benefits of changes flow through.

The Council is committed to continue to offer all current services as far as possible.

Under the Local Government Finance Act 1992, the Council is charged with setting a balanced budget by the 11th March of the preceding financial year. The budget for 2019-2020 is balanced, but for projections ahead the national business rate retention review will have an impact. During 2019-2020, the Council will continue with the implementation of the Budget Strategy 2016-2020, ensure that those reductions are sustained, and will review the future funding position once the formula and business rate retention scheme position are known or can be reasonably estimated.

For this iteration of the MTFP it has been assumed that the **settlement baseline** is the value of business rates that will be available to the Council, however, it is hard to imagine that all of the local share of growth since the inception of the business rate retention scheme in 2013 will be removed in the reset.

To project the core budget forward the use of reserves, parish precepts and other one-off items must be removed; the 2019-2020 core budget included in Table 1 is prepared on that basis.

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The budget projections, using the settlement baseline for business rates retained income, show a deficit for each future year.

	Core Budget 2019-2020	Projection 2020-2021	Projection 2021-2022	Projection 2022-2023
	£	£	£	£
Staff pay	6,436,430	6,631,940	6,855,060	7,061,970
Staff other costs	107,170	107,670	108,180	108,710
Transport	106,940	106,940	106,940	106,940
Property	1,719,060	1,773,320	1,830,910	1,892,110
Supplies and services	1,885,500	1,901,400	1,917,580	1,934,060
Contracts	3,715,510	3,774,310	3,886,360	4,001,730
Benefits	17,820,680	17,820,680	17,820,680	17,820,680
Benefits grants	-17,617,720	-17,617,720	-17,617,720	-17,617,720
External income	-6,241,230	-6,338,570	-6,367,200	-6,398,270
Direct costs	7,932,340	8,159,970	8,540,790	8,910,210
Internal income; HRA & capital	-840,190	-840,190	-840,190	-840,190
Capital charges	1,704,210	1,704,210	1,704,210	1,704,210
Indirect costs	864,020	864,020	864,020	864,020
Net expenditure	8,796,360	9,023,990	9,404,810	9,774,230
External interest earned	-126,000	-108,000	-90,000	-72,000
External interest paid	584,650	584,650	584,650	584,650
Minimum revenue provision	505,920	505,920	505,920	505,920
Depreciation reversal	-1,704,210	-1,704,210	-1,704,210	-1,704,210
Pension deficit funding	1,121,110	1,145,770	1,170,980	1,196,740
Net revenue budget	9,177,830	9,448,120	9,872,150	10,285,330
Budget funded by:				
Revenue support grant	-1,251,880	0	0	0
Retained business rates	-8,298,420	-4,417,800	-4,506,160	-4,596,280
Retained business rates tariff	5,088,030	0	0	0
Retained business rates levy	536,760	0	0	0
Business rates pool	-107,360	0	0	0
Other Government grants	-942,570	0	0	0
New homes bonus grant	-2,800	0	0	0
Council tax precept	-4,595,270	-4,732,670	-4,874,180	-5,019,920
Total revenue financing	-9,573,510	-9,150,470	-9,380,340	-9,616,200
Deficit/(surplus)	-395,680	297,650	491,810	669,130

Table 1

The 2019-2020 balance is the total of one-off items removed for comparison across Table 1; the actual 2019-2020 budget is balanced to zero.

Medium Term Financial Plan **2019-2020 to 2022-2023**

F. Assumptions and Estimates

The assumptions and estimates used to project the 2019-2020 core budgets out to 2022-2023 are:

Item	Assumption
General	
Reserves	Excluded
Funded projects	Excluded
Parish precepts	Excluded
Services	Budget Strategy proposals implemented
Services	Continue to be prudent and efficient
Services	No service reductions
Services	No demand-led increases assumed
Services	No alternative delivery models
Staff	
Establishment	Based on 2019-2020 budget
Incremental advances	Employee progression continues
Superannuation current service rate	No change; 15.7%
Pay award	2% on each year
Training	Budget maintained
Former pension scheme increases	3% increase each year
Apprenticeships	Not budgeted for at the moment
Property	
Electricity and gas	8% increase each year
Water	5% increase each year
NNDR	2% increase each year (multiplier)
Removal of refuse	4% increase each year
Supplies and Services	
Grants to external bodies	Continuing from reserves to 2024-2025
LCTRS grant to Parishes	Fixed at 2019-2020 figures
Subscriptions	3% increase each year
Professional fees and software	2% increase each year
Members allowances	2% increase each year
Contracts	
Revenues and benefits IT	3% increase each year
Revenues and benefits IT	Saving from tendering exercise

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2019-2020 to 2022-2023

Item	Assumption
Building cleaning contract	4% increase each year
Grounds maintenance contract	2.9% increase each year
Waste and street cleansing	2.9% increase each year
External Income	
Discretionary income	Income policy applied
Discretionary income	Assumed 2.5% increase each year
Full cost recovery	Increases covered by additional income
Recycling	No reduction in tonnage
Recycling reward	3% increase in price per tonne
Car parking tariffs and permits	No increase in prices
Housing benefit administration grant	Reduced by 10% each year
Internal Income	
Support services charged to HRA	Based on 2019-2020 budget
Support services charged to capital	Based on 2019-2020 budget
External Interest Earned	
Temporary surplus cash	Reducing by £2m each year
Investment income rate	Assumed 0.9% weighted average
External Interest Paid	
PWLB interest	HRA maturing loans repaid
Borrowing (cash requirement)	No new borrowing drawn down
Minimum Revenue Provision	
Pre April 2008 borrowing	Fixed over 50 years
Post April 2008 borrowing	Charged in line with depreciation
Pension Deficit Funding	
Pension fund triennial review	2.2% increase each year
Total Revenue Financing	
Revenue support grant	Rolled into business rate baseline
Retained business rates	2019-2020 settlement baseline
Business rate multiplier	2% increase each year
New Homes Bonus	No new award included
Council tax	No reduction in the collection rate
Council tax base	No increase assumed
Council tax band D	Maximum allowed; 2.99% included
LCTRS – default scheme	Continues to mirror HB regulations
Prior year Collection Fund result	Not included or assumed

Medium Term Financial Plan **2019-2020 to 2022-2023**

F. Reserves and Balances

The Council has a Medium Term Financial Plan support reserve which is used in the delivery of the Budget Strategy or in a position of funding volatility whilst service delivery changes are implemented.

To be able to deliver the Budget Strategy and ensure future financial resilience, it is sometimes necessary to fund items of non-recurring expenditure. Items of non-recurring expenditure necessary to deliver the Budget Strategy are funded from the Medium Term Financial Plan support reserve and also the Transformation Reserve. The outturn result of each year during the Budget Strategy period is either met from or added to the Medium Term Financial Plan support reserve.

In order to be in a position to mitigate the fluctuations in the Borough Council's retained share of Business Rates, income has been prudently set aside into a volatility reserve. As the localisation of Business Rates progresses there is an increased risk and reliance placed on Business Rates to finance Council services; this is over and above the current fluctuations, revaluations and appeals.

The General Fund balance at the 31st March, 2020, is projected to be £2,300,000; the minimum balance required is currently £2,100,000. The projected General Fund financial reserves over the life of this Medium Term Financial Plan are estimated to be:

	31/3/2020	31/3/2021	31/3/2022	31/3/2023
	£	£	£	£
General Fund balance	2,300,000	2,300,000	2,300,000	2,300,000
Medium Term Financial Plan support	759,122	759,122	759,122	759,122
Transformation reserve	143,849	93,849	43,849	-
Renewals reserve	1,281,452	1,031,452	781,452	531,452
Insurance reserve	99,511	79,511	59,511	39,511
Losses reserve	865,162	865,162	865,162	865,162
Contingency reserve	2,198,964	1,989,464	1,779,964	1,570,464
Other reserves	347,276	267,653	210,683	153,713
Ring-fenced grants reserve	487,223	337,223	187,223	37,223
	8,482,559	7,723,436	6,986,966	6,256,647
				Table 2

The movements in reserves included in these projections are the best estimates based on previous years but there will be other movements with reserves across the period covered. Until the funding position beyond 2019 is known, the Medium Term Financial Support reserve and reserves as a whole will be protected. The Councils reserves are set out in the Reserves and Balances policy. Reserves are earmarked for specific purposes through recommendations to Full Council from the Executive Committee.

Medium Term Financial Plan 2019-2020 to 2022-2023

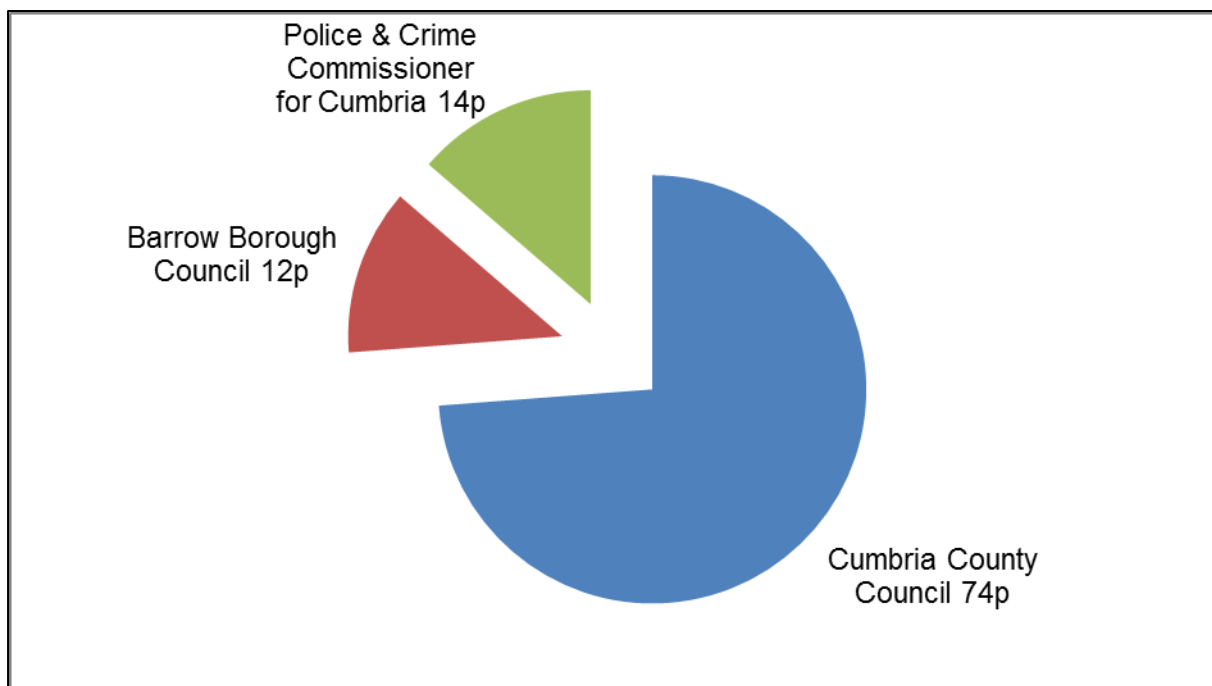
G. Council Tax

The Council Tax for 2019-2020 was set by Full Council on the 28th February, 2019, and the Band A value is £156.94 including a 2.99% increase. The Band D value is £235.41 with the Tax Base at 19,520.25; the Council's demand on the Collection Fund to meet the 2019-2020 General Fund budget was set at £4,595,270.

The Council Tax Base is calculated on Band D equivalents; Table 3 shows that 89% of properties in the Borough are lower than Band D, giving the authority a low Council Tax Base. Across the whole Borough, the chargeable dwellings (October 2018) are split over the Council Tax bands as follows:

Band	Ratio	Chargeable Dwellings	Chargeable Dwellings Grouped
A	6/9	19,167	59%
B	7/9	5,385	16%
C	8/9	4,626	14%
D	9/9	2,306	7%
E	11/9	997	3%
F	13/9	228	1%
G	15/9	69	0%
H	18/9	3	0%
			Table 3

Each £1 of the unparished total Council Tax bill belongs to:



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H. Risk

Estimates contain an element of risk from items such as inflation, the financial markets, Government support, customer demand and the anticipation of future events.

The Council's Reserves and Balances Policy sets out the risk assessment applied to estimates.

Some of the key financial considerations are:

- Allowances for inflation may be insufficient.
- Employer pension contributions may increase.
- National insurance contributions may increase.
- The staff re-grading scheme is not budgeted for.
- Usage of gas and electricity may be estimated too low.
- NNDR and water rates may change.
- Professional services may be required to support key functions.
- The possibility of driving further efficiency savings from the budget.
- No major contracts are due to be retendered during the life of this Plan.
- Budget Strategy reductions must be sustained.
- No new expenditure items can be added.
- Cash flow requirements must be constantly reviewed.
- The cost of new borrowing.
- Interest rate fluctuations.
- The next triennial pension fund valuation will apply to 2021-2024.
- Open consultations concerning future funding.
- Uncertain of the continuation of the Cumbria business rates pool.
- The impact of Universal Credit and other welfare reforms.

Medium Term Financial Plan 2019-2020 to 2022-2023

I. Capital

The Capital Programme financing does not include any borrowing but does include anticipated funding for known grants, capital receipts, and the use of the Major Repairs Reserve and the Renewals Reserve. The capital receipts include known land disposals that are in progress and upcoming – if those receipts are realised then the Programme is fully funded. The projects in future years will not be commissioned until sufficient funding is in place. The Programme out to 2021-2022 is shown in Table 4.

	2018/2019	2019/2020	2020/2021	2021/2022
	£	£	£	£
Capitalised planned maintenance	1,928,000	2,319,500	2,319,500	2,319,500
Total Investment in Public Housing	1,928,000	2,319,500	2,319,500	2,319,500
Disabled facilities grants	1,000,000	1,000,000	1,000,000	1,000,000
Rawlinson Street Phase 2	44,653	300,000	-	-
Rawlinson Street Phase 3	-	-	400,000	-
North Central Renewal - Greengate Street	-	50,000	50,000	-
Barrow Island Environmental Improvements	46,025	-	-	-
Private Sector Housing	-	-	263,600	-
Total Investment in Private Housing	1,090,678	1,350,000	1,713,600	1,000,000
Crematorium	844,213	-	-	-
Dock Museum	90,000	-	-	-
Public Buildings Investment Fund	-	150,000	150,000	150,000
Total Investment in Public Buildings	934,213	150,000	150,000	150,000
Barrow Island Growth Zone	250,000	-	-	-
Waterfront Gateway Business Centre Plot 1 Harding Rise	300,000	3,466,510	88,490	-
Marina Village	30,000	-	-	-
Industrial & Commercial Property Investment Fund	-	-	-	974,892
Total Industrial & Commercial Properties	580,000	3,466,510	88,490	974,892
Town Centre Shop Front Grants	2,583	-	-	-
IT Equipment & Development	60,000	126,000	60,000	60,000
Housing Management System	65,703	-	-	-
Total Investment in other public assets	128,286	126,000	60,000	60,000
CCTV	35,000	-	-	-
Rural Regeneration - Coastal Protection	-	126,888	-	-
Cavendish Park	14,600	-	-	-
Coastal Communities - Art Gene	11,740	-	-	-
Total Investment in Community Initiatives	61,340	126,888	-	-
Asset Investment Fund	-	150,000	150,000	150,000
Total	4,722,517	7,688,898	4,481,590	4,654,392
Funding of Capital Programme:				
DCLG Grant	1,011,740	1,000,000	1,000,000	1,000,000
ERDF	180,000	2,079,910	53,100	-
DEFRA Environment Agency	-	126,888	-	-
Private Contributions	14,600	-	-	-
HRA MRR	1,928,000	2,319,500	2,319,500	2,319,500
Contributions from HRA	65,703	-	-	-
Cluster of Empty Homes Loan Repayments	46,025	50,000	313,600	-
Contributions from Earmarked Reserves	219,083	189,956	-	-
Usable Capital Receipts	1,257,366	1,922,644	795,390	1,334,892
Total	4,722,517	7,688,898	4,481,590	4,654,392

Table 4

Medium Term Financial Plan **2019-2020 to 2022-2023**

J. Treasury

The Treasury Management Strategy and Capital Strategy are set annually. The Treasury Strategy includes the Prudential Indicators that control all of the Council's treasury activities, the borrowing strategy, the annual investment strategy and credit and counterparty risk management.

CIPFA defines treasury management as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council is required to set the maximum level, beyond which external debt is prohibited. This limit can only be set or revised by Full Council. This Prudential Indicator is the Authorised Limit for External Debt:

Authorised limit	2019-20	2020-21	2021-22	2022-23
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
Total	55	55	54	54

The General Fund external debt is long term whilst the Housing Revenue Account has a mixture of maturity dates due to the self-financing exit; the external debt for MTFP period will be:

External debt	2019-20	2020-21	2021-22	2022-23
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
At 1st April	37.479	36.479	35.479	34.479
Expected change	-1.000	-1.000	-1.000	-1.000
Gross debt at 31st March	36.479	35.479	34.479	33.479

The external debt and is split between the General Fund and the Housing Revenue Account as follows:

External debt	2019-20	2020-21	2021-22	2022-23
	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m
General Fund	13.380	13.380	13.380	13.380
Housing Revenue Account	23.099	22.099	21.099	20.099
Gross debt at 31st March	36.479	35.479	34.479	33.479

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K. Housing Revenue Account

From the 1st April 2012 the Housing Subsidy system ended. The Housing Revenue Account is self-financing as set out in its 30 year Business Plan; the rent from the dwellings pays for the upkeep and management of the dwellings. The Housing Revenue Account remains a ring-fenced account as determined by the Local Government Housing Act 1989.

The Housing Revenue Account budget for 2019-2020 was approved by Full Council on the 28th February, 2019. It is a balanced budget with a 1% rent decrease for dwellings and a 2% increase for garages.

For 2019-2020 there is a contribution to reserves for the maintenance programme and this is removed from the core budget as a one-off transaction which will be brought back in the revenue budget in a future year.

	Core Budget 2019-2020 £	Projection 2020-2021 £	Projection 2021-2022 £	Projection 2022-2023 £
Expenditure				
Repairs and maintenance	3,078,920	3,552,350	3,647,490	3,745,510
Supervision and management	3,415,390	3,462,670	3,511,250	3,561,260
Rents, rates, taxes and other charges	7,460	7,510	7,560	7,610
Depreciation of dwellings	1,896,060	1,896,060	1,896,060	1,896,060
Depreciation of other assets	175,050	175,050	175,050	175,050
Debt management expenses	12,280	12,280	12,280	12,280
Movement in the allowance for bad debts	168,920	168,920	168,920	168,920
Total expenditure	8,754,080	9,274,840	9,418,610	9,566,690
Income				
Dwelling rents	-9,643,970	-9,766,540	-9,889,960	-10,015,300
Non-dwelling rents	-400,880	-405,450	-410,110	-414,870
Charges for services and facilities	-1,310,820	-1,310,820	-1,310,820	-1,310,820
Total income	-11,355,670	-11,482,810	-11,610,890	-11,740,990
HRA share of corporate and democratic core	197,670	197,670	197,670	197,670
HRA share of non-distributed costs	-820	-820	-820	-820
Net total	-2,404,740	-2,011,120	-1,995,430	-1,977,450
Interest payable and similar charges	934,300	914,370	892,510	868,230
Pension interest and expected return on assets	358,800	358,800	358,800	358,800
Surplus for the year	-1,111,640	-737,950	-744,120	-750,420
Adjustments under regulations:				
Voluntary repayment provision	816,520	816,520	816,520	816,520
Reversal of pension accounting	-358,800	-358,800	-358,800	-358,800
Pension deficit funding	274,200	280,230	286,400	292,700
Total adjustments	731,920	737,950	744,120	750,420
Deficit/(surplus) for the year	-379,720	0	0	0

Table 6

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The dwelling stock at the 1st April, 2018, was 2,606 and is estimated to be 2,585 by the 1st April, 2019, with 18 sales per year assumed for future budget projections.

The projections out to 2022-2023 show a balanced budget for the Housing Revenue Account; the projections use the same assumptions as the General Fund where applicable, plus dwelling and garage rents increasing by 2% each year, and where any surplus arises it has been allocated to the maintenance budget which fluctuates each year in accordance with the overall housing maintenance programme.

The Housing Revenue Account balance at the 31st March, 2020, is projected to be £1,000,000; the minimum balance required is currently £900,000.

The planned housing maintenance programme is presented as part of the Capital Programme.