DECISION

RIBBLE VALLEY BOROUGH COUNCIL
REPORT TO POLICY AND FINANCE COMMITTEE

Agenda Item No 7

meeting date: 20 MARCH 2018
title: MEDIUM TERM FINANCIAL STRATEGY
submitted by: DIRECTOR OF RESOURCES
principal author: LAWSON ODDIE

1 PURPOSE

1.1 To approve the Council's Medium Term Financial Strategy (MTFS) for the period 2018/19 to 2021/22.

1.2 Relevance to the Council's ambitions and priorities:

- Community Objectives – none identified
- Corporate Priorities - to continue to be a well-managed Council providing efficient services based on identified customer need. To meet the objective within this priority, of maintaining critical financial management controls, ensuring the authority provides council tax payers with value for money.
- Other Considerations – none identified.

2 BACKGROUND

2.1 The purpose of the MTFS is to pull together in one place all known factors affecting the financial position and financial sustainability of the council over the medium term. It balances the financial implications of our objectives and policies against the availability of our resources to support them.

2.2 The MTFS is the Council's key financial planning document and aims to provide an assurance that our spending plans are affordable over the Medium Term (2018/19 plus 3 years).

2.3 The MTFS allows the council to take budget and investment decisions in the shorter term, but with the availability of information on our future financial position. It is then possible to assess how these decisions may impact on our financial stability.

3 MEDIUM TERM FINANCIAL STRATEGY

3.1 The attached MTFS is split in to two sections. The first part provides details of the last forecast position that committee considered in September 2017 and also provides the current contextual background from both a local and national perspective. The first section also explains our key areas of income and expenditure and the position on the capital programme.

3.2 The second part of the MTFS covers the details that have previously been submitted to the government with regard to our Efficiency Plan and also looks at the latest forecast medium term revenue position. Furthermore the MTFS looks at the risks and sensitivity surrounding the forecast and explains the financial management arrangements that we have in place.

3.3 The MTFS forms an integral part of the council's financial planning process and whilst it is a document produced by the finance team, it is important that it is understood and recognised by all staff and members across the council. Financial forecasting and monitoring is integral to the provision of our services.

4 BUDGET WORKING GROUP

4.1 The attached MTFS has been reviewed and considered by the Budget Working Group at their meeting on the 14 February 2018.

4.2 There was discussion on the various sections of the MTFS and the Budget Working Group fully endorsed the MTFS document as attached at Annex1 and recommended it for approval by Policy and Finance Committee.

5 CONCLUSION

5.1 The MTFS has been produced and is attached at Annex 1. This includes the implications of the latest budgets for both revenue and capital.

5.2 The MTFS has been considered by the Budget Working Group and has been fully endorsed at their meeting on 14 February 2018.

6 RISK ASSESSMENT

6.1 The approval of this report may have the following implications

- Resources: This document does not commit any current or future budgets and is used as a forecasting tool
- Technical, Environmental and Legal: none identified
- Political: none identified
- Reputation: sound financial planning safeguards the reputation of the council
- Equality and Diversity: Equality and diversity issues are considered in the provision of all council services

7 RECOMMENDED THAT COMMITTEE

7.1 Approve the Medium Term Financial Strategy for 2018/19 to 2021/22.

HEAD OF FINANCIAL SERVICES DIRECTOR OF RESOURCES

PF24-18/LO/AC
5 March 2018

DECISION

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PF24-18/LO/AC
5 March 2018

DRAFT

Medium Term Financial Strategy

2018/19 to 2021/22

Ribble Valley Borough Council

www.ribblevalley.gov.uk

Contents

PART 1

CONTEXT AND CURRENT POSITION

Introduction

The Strategy

The medium term financial strategy (MTFS) is the council's key financial planning document. It aims to provide the council with an assurance that the council's spending plans are affordable over the medium term (the next financial year plus 3 years).

The main objectives of the medium term financial strategy are:

- to look to the longer term to help plan sustainable services and budgets and help ensure that the council's financial resources are sufficient to support delivery of Corporate Strategy priorities.
- to provide a single document to communicate the financial context, aims and objectives to staff and stakeholders and support working with partners.

The financial strategy includes a three-year budget forecast (current/new financial year plus 3 years) that is reviewed biannually. The medium term financial forecast builds on previous medium term strategies to provide the financial foundation for delivery of the council's policy priorities and to meet the identified performance and resource issues.

This strategy covers the period 2018/19 to 2021/22 and sets out the resource issues and principles that shape the council's budget.

The capital programme is included to the year 2022/23 which is the final year of the current five-year capital programme.

Local Policy

The council's Corporate Strategy provides the overall direction for the medium term financial strategy and the annual budget.

The Corporate Strategy sets out the strategic direction of the council, providing a focus to ensure that the services the council delivers meet the needs of its communities. It is one of the council's most important documents setting out those areas identified for focused improvement over future years.

The council's Vision continues to be that we aim to ensure that the Ribble Valley is:

OUR VISION
An area with an exceptional environment and quality of life for all; sustained by vital and vibrant market towns and villages acting as thriving service centres meeting the needs of residents, businesses and visitors.

We believe that this Vision reflects our shared aim for the Borough, which has the highest quality of environment for those who live in and visit the area. It recognises that people must have a high quality of life; that suitable homes are available to meet their diverse needs and that they should be safe and feel safe. People should also be able to access the best services without having to travel long distances to receive them.

Key to the council's Corporate Strategy is the Mission Statement of the council. The council has adopted the following statement that sets out its role and responsibilities in relation to the communities it exists to serve:

MISSION STATEMENT
The council will provide high quality, affordable and responsive public services that develop the social and economic wellbeing of the Borough whilst safeguarding the rural nature of the area.

The role of the council's financial planning process is to support the achievement of the council's Corporate Strategy.

In order to deliver its Vision and provide a focus for how it delivers services, the council has agreed a set of five corporate priorities. The council's priorities are deliberately limited to focus attention over the life of the Corporate Strategy. Each priority has a number of objectives, underlying actions, and key measures of success, which should allow progress towards the achievement of the priority to be monitored. They are expanded upon in the supporting Corporate Action Plan.

Above all **'We aim to be a well-managed council providing efficient services based on identified customer needs'** overarches all of our priorities, whilst recognising the importance of securing a diverse, sustainable economic base for the

Borough. The priorities are driven by local needs with consideration to national priorities.

Priority 1	Priority 2	Priority 3	Priority 4	Priority 5
To ensure a well-managed council providing efficient services based on identified customer needs.	To sustain a strong and prosperous Ribble Valley.	To help make people's lives safer and healthier.	To protect and enhance the existing environmental quality of our area	To match the supply of homes in our area with the identified housing needs

Our Financial Position in September 2017

Financial resources across local government are decreasing and the council is seeing pressures from the perspective of both revenue and capital.

The council has already approved and submitted to the government how it is looking to fill the funding gap within the summary forecast position below. This was provided as part of the Efficiency Plan that was submitted in order to secure the four-year finance settlement and provides our plan to:

- Encourage growth in our taxbase
- Encourage business expansion and enterprise in our area
- Continue to deliver cost effective and efficient services
- Review the major sources of income available to the Council

Prior to the development of this strategy our Policy and Finance Committee have been informed of our forecast position over the coming years through a budget forecast covering the period 2018/19 to 2020/21.

This was based on a number of assumptions and highlighted a sizeable amount of savings to be found in order to reach an affordable and achievable budget.

Over the period, savings would be required of:

- £774,059 for 2018/19
- £956,274 for 2019/20
- £674,027 for 2020/21

These are expressed on an assumption that any savings in each year are one-off and non-recurring. Therefore, as an example, should recurring savings be found in 2018/19 of £500,000 then the required savings to be found in each subsequent year would be reduced initially by that same £500,000, being recurring in nature.

Our Financial Position in September 2017

Table 1 – Summary of Budget Forecast 2018/19 to 2020/21 (September 2017)

	2017/18 Forecast £	2018/19 Forecast £	2019/20 Forecast £	2020/21 Forecast £
Net Expenditure	**6,381,670**	**7,093,925**	**7,279,164**	**7,043,865**
Interest Receipts	-15,660	-20,000	-25,000	-70,000
Use of Superannuation Reserve	-36,512	-36,512	-36,512	-36,512
Rural Services Grant	-86,603	-66,618	-86,603	-86,603
Use of Business Rates Growth	-275,514	-275,514	-275,514	-275,514
Use of New Homes Bonus	-793,079	-793,079	-793,079	-793,079
(Use of)/Contribution to Balances	-250,000	-250,000	-250,000	-250,000
Savings Required	**0**	**-774,059**	**-956,274**	**-674,027**
Budget Requirement	**4,924,302**	**4,878,143**	**4,856,182**	**4,858,130**
Core Government Funding				
Revenue Support Grant	-304,319	-109,149	108,866	250,000
Transition Grant	-20,345	0	0	0
Business Rates Baseline	-1,264,824	-1,305,517	-1,351,954	-1,342,771
Collection Fund Deficit/(Surplus)	-59,557	-25,000	-25,000	-25,000
Precept	**3,275,257**	**3,438,477**	**3,588,094**	**3,740,359**
Based on Taxbase:	22,481	22,818	23,046	23,277
Band D Council Tax	**£145.69**	**£150.69**	**£155.69**	**£160.69**
Based on Projected Council Tax increase:	0%	£5 max	£5 max	£5 max

The above budget forecast was based on a number of assumptions as shown below:

- Annual Pay increases were assumed at 2% per annum
- General Inflation in line with Bank of England target of 2% over the forecast period
- Investment interest assumed a gradual increase from 0.25%
- Same level of usage of New Homes Bonus and Business Rates Growth as used in the current financial year.
- Council Tax increase of £5 – this would ultimately be a decision for members at the time of setting the budget
- Full loss of cost sharing income (£430K)
- Planning Fee income was increased by 20% in line with Government promises (£109K). A corresponding amount of expenditure was also brought in as required by the government.
- Expenditure in respect of a new Director of Economic Development and Planning was included (£110K)
- Assumption that any further growth would be met by corresponding savings, in line with past policy
- Use of General Fund Balances set at £250K
- A 1.5% increase to the taxbase for 2018/19, with 1% allowed thereafter
- Council Tax surplus assumed each year of £25K

The above forecast, which was reported to Policy and Finance Committee in September 2017, forms the base position in arriving at the proposals in this strategy and summarised in the section ‘Forecast Revenue Position’.

National Pressures

UK Economy

The UK economy is currently benefiting from an increase in growth across the developed world. This is seen as the final recovery from the 2008 financial crisis. The UK recorded its fastest rate of growth in the last three months of 2017.

Consumer spending has fallen as a consequence of weak wage growth and the fall in the value of the pound in the aftermath of the EU referendum, which drove up the cost of imports. However, the National Institute of Economic and Social Research said the weaker exchange rate and buoyant global demand for goods and services was helping to rebalance the economy away from domestic growth and towards stronger export growth.

With inflation expected to fall in 2018 it is hoped that this may mean a growth in consumer spending. The National Institute of Economic and Social Research expect the Bank of England to raise interest rates by 25 basis points every six months from May up to 2%.

Recent announcements by the Bank of England also point towards a likely 0.25% increase in base rate in May, with another to follow in autumn.

Global growth has helped to keep the UK economy buoyant. Without global growth it is thought that UK economic growth would have been around 1.2% rather than the 1.8% that has been seen.

Brexit remains a key uncertainty to the UK economy, particularly if talks fail.

The key impacts on this council of the above items are in respect of any new future borrowing, but conversely we may benefit from increased investment income. Past weak wage growth, particularly in the public sector, is likely to impact on the council and this is materialising in the current negotiations on the 2018/19 and 2019/20 pay award.

Strength/Weakness of the Pound

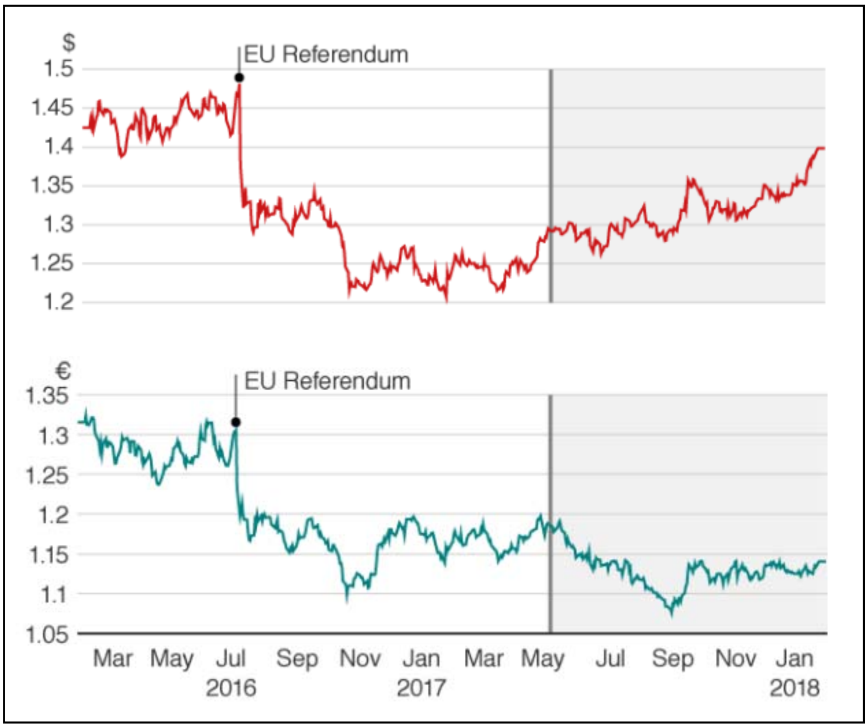
The vote to leave the European Union has resulted in a fall in the strength of the pound. This has led to an increase in inflation, impacting on incomes and consumer spending.

This reflects the market's expectations that a weaker pound will be necessary to offset the loss of competiveness resulting from a less open trading relationship between the UK and the EU.

In the Autumn Statement 2017 the value of the pound was still around the level seen at the Spring Budget 2017, but was around 10% below the level seen in the first half of 2016.

More recently the pound has risen quite strongly against the dollar, but remained largely flat when compared to the Euro. Analysts believe this largely to have been helped by falls in the dollar and also a rethink by some investors about the UK's economic prospects and optimism about the UK's chances of securing a deal under Brexit talks.

Table 2: The Pound Against the Dollar and Euro



The pound has seen a steady recovery in recent months, which benefits UK tourists visiting the US and could bring down the cost of imports.

The main impact on the council is through the purchase of ICT related products and licences. The previous trend of a strong dollar against the pound since the EU referendum had resulted in an increase in these costs due to the poor exchange rate. This trend now appears to be reversing; the fall in the value of the dollar against the pound should now reduce these costs to the council.

The price of a barrel of oil has also reduced following the fall in the value of the dollar, which may result in lower fuel prices. However, as there are many other external factors which directly and indirectly affect the price of oil, such as production levels and demand, there is no certainty that this fall in price will feed through to our fuel costs.

Brexit

When the UK leaves the EU, it is unclear as to how the UK's contribution to the EU will be affected – they may cease altogether or continue at a different amount. There are therefore many uncertainties around future substitute spending of these monies; however there are a number of promises that have been made.

Negotiations are now focusing upon a transition period which will continue to allow free trade between the UK and EU and also focus on future relations between the EU and UK. The UK is due to leave the EU at 11pm on 29 March 2019.

Following the decision to leave the EU net inward migration has fallen; this is in part as a result of the fall in the value of UK wages in prospective immigrants' home currencies following the fall in the value of the pound.

The fall in the pound prompted by the vote has led to an increase in inflation, with CPI inflation at 2.7% in December 2017.

Looking more widely, the potential impact which the vote for Britain to leave the European Union may have on councils (and indeed on the economy as a whole) is unclear. In the medium term there are likely to be both positive and negative impacts, but for the immediate future there is an increased level of uncertainty. Potential areas of impact include employment law and procurement regulations.

Interest Rates

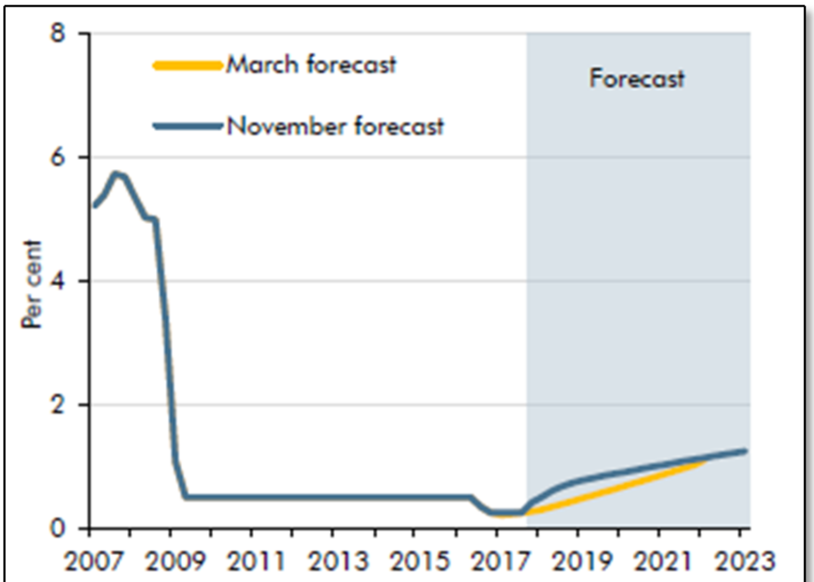
In November 2017 the Bank of England increased interest rates from 0.25% to 0.5%, the first increase since 2007. The previous change was a reduction to 0.25% from 0.5% in August 2016.

In its November 2017 Economic and Fiscal Outlook the Office of Budget Responsibility (OBR) expected interest rates to rise slowly, with markets expecting Bank Rate to reach 1.25% in five years' time, an increase of only three further quarter-point rises from the Bank Rate announced in November 2017 by the Monetary Policy Committee.

More recently, following announcements by the Bank of England, some financial analysts think a rise in the Bank's base rate from 0.5% to 0.75% in May is now much more likely, with another one expected to follow in the autumn.

As previously mentioned, the National Institute of Economic and Social Research expect the Bank of England to raise interest rates by 25 basis points every six months from May up to of 2%.

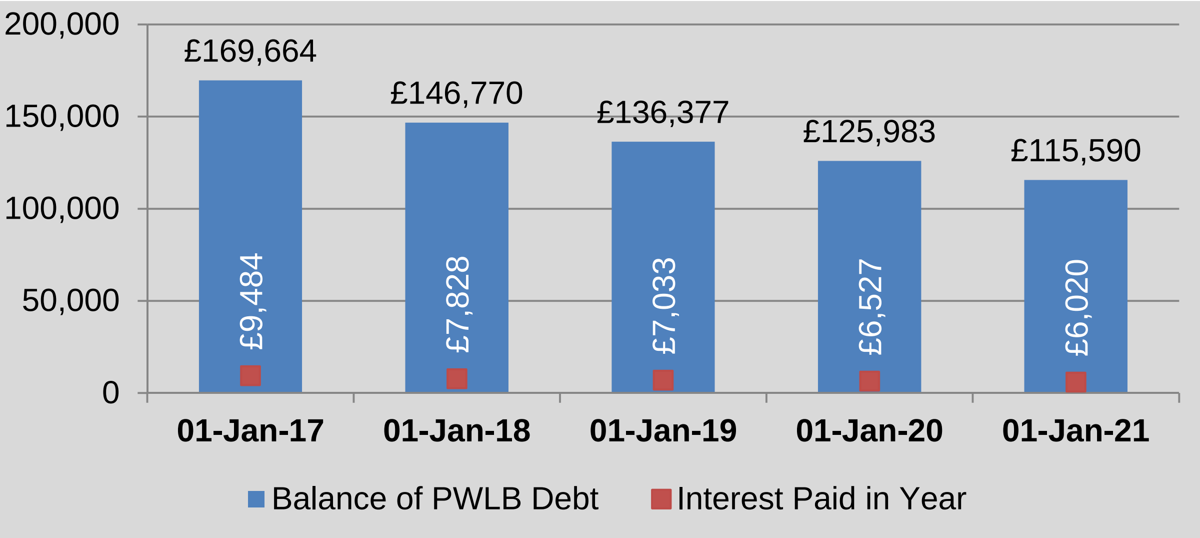
Table 3 – OBR Bank Rate Forecast Comparison



Source: Bank of England, Datastream, OBR

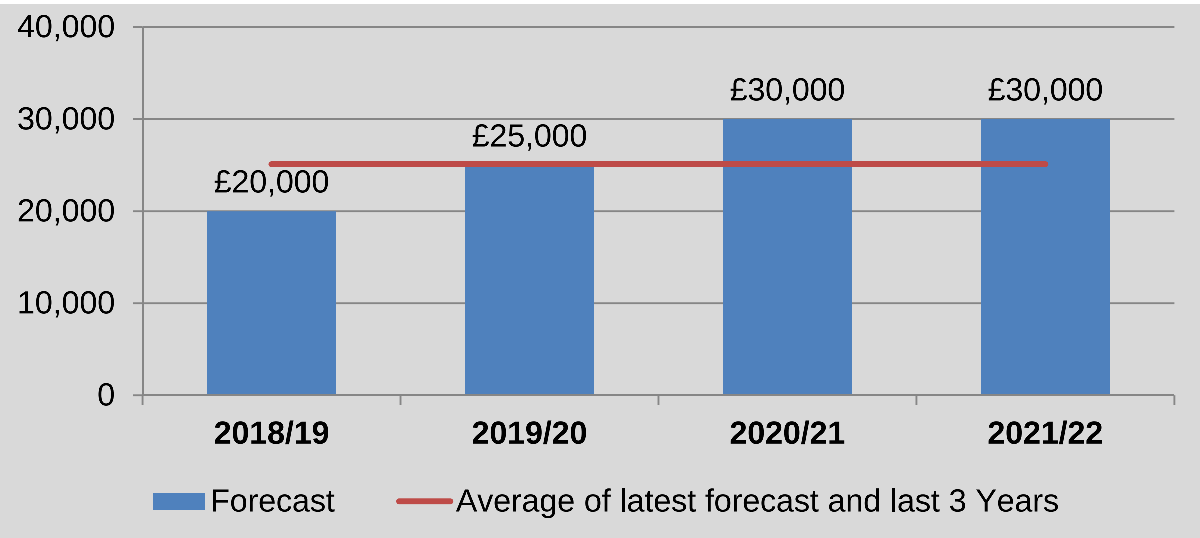
The increase in interest rate has no effect on the interest payable on the council's long term loan debt from Public Works Loan Board (PWLB), which is all at fixed interest rates. The table below shows the level of external interest payable on our debt over the life of this strategy together with details of the level of debt outstanding at each year end. This assumes no further borrowing over that time period and a continuation of our existing repayment plans.

Table 4 – Interest Payable and Year End Balances of PWLB Debt



However, any increase in the bank base rate will result in an increase in income from our temporary investments. Our forecast of interest receivable over the life of this forecast is shown in the table below. Also shown in the table is the average of the current year forecast and last three years receipts.

Table 5 – Forecast Interest Receivable 2018/19 to 2021/22



Local Pressures

Waste Management

One of the major funding issues for this council is the impact of the withdrawal of cost sharing funding by Lancashire County Council from 2018/19 onwards. This is a substantial amount of funding equating to £430,000 per annum. The ethos of this funding was that it was to support the provision of recycling activities as part of the refuse collection services, enabling the diversion of waste from landfill.

There has been substantial consideration of options available to the council and its residents as a result of the withdrawal of this funding. These have included:

- Charging for green waste collection;
- Options for dealing with mixed paper and cardboard;
- Changes to refuse and recycling collection frequency;
- Alternative arrangements for the recycling of our recyclable/compostable waste streams; and
- Mothballing of the waste transfer station.

Out of the above, charging for green waste has been an area of serious consideration. At this stage the council is minded not to bring in charges for green waste due to other budget funding options that may potentially be available for the medium term, however this position may be reviewed.

Planning

An influx of planning applications over past years has seen substantial amounts of income from planning application fees. The implementation of the Core Strategy and the continuing work on the local development plan has seen the level of budgeted planning fee income fall in 2017/18 and 2018/19.

This reduced level of planning fee income is anticipated to continue at current levels. However, conversely the impact of planning appeals and associated costs on our expenditure and reserves is now expected to dramatically fall, as has been seen in the 2017/18 financial year.

However, continuing work on the local development plan and the ongoing refreshing of the Core Strategy will have its own potential associated costs, which are not included within the base budget and will be subject to further consideration by management team and members.

Economic Development

The council now have a newly created Economic Development Committee which is principally tasked with matters concerning the promotion of economic development throughout the Borough.

Furthermore, we are in the process of reorganising the council's planning, housing and economic development departments into one directorate. Approval has also been given for the appointment of a Director of Economic Development and Planning charged with leading a team focused on growing the local economy and this is part of a number of initiatives towards economic growth.

The aim of these two areas of change is for the council to be the catalyst that drives the local economy, maximises local enterprise and creates jobs for new and existing residents of Ribble Valley.

With overall government funding falling and various consultations on business rates retention it is hoped that the changes to our committee and organisation structure can help build on our excellent economic development work of the past. Through increased economic development it is anticipated that we will be able to build on the business rates growth that has been experienced in recent years.

We are looking to create more industrial estates and increase the borough's retail, leisure and hospitality offering to match the continuing increase in our population. As part of this we will continue to work on the Clitheroe market area redevelopment and help to boost the tourism offer within the borough.

Rurality

The provision of services within such a rural borough comes with its own unique challenges and are exacerbated by the segmentation of the borough by rivers which each have limited crossing points.

Furthermore, we have a large number of rural communities with limited bus, rail and other transport links which lead to rural isolation and associated issues for both service provision and also for the well-being of our residents.

There has been some recognition by the government of the increased cost pressures for rural local authorities such as ourselves following much lobbying led largely by SPARSE-Rural/Rural Services Network.

In the local government finance settlement for 2018/19 the government has recognised that cost pressures associated with service delivery in rural sparse areas and have maintained the level of Rural Services Delivery Grant in 2018/19 at that received in 2017/18. This grant is one of those intended to be funded through proposed changes to retained business rates changes from 2020/21.

The funding baselines for local authorities, as determined by the local government finance settlement, are based on an assessment of local authorities' relative needs and resources. The methodology behind this assessment was introduced over ten years ago, and has not been updated since the introduction of the 50% business rates retention system in 2013/14.

The government are now consulting on a review of relative needs and resources under the 'Fair funding review: a review of relative needs and resources - Technical consultation on relative need'. The Government is working towards an implementation date for the review of 2020/21.

Housing

Whilst we are included in the top quartile of local authorities on the basis of the super-sparsity indicator (which ranks authorities by the proportion of the population which is scattered widely), as previously mentioned there has been a large influx on planning applications in past years.

Some of these approved applications are now coming to fruition with some substantial developments having started in the last 12 months.

As these new developments start to be populated over the next few years there will be a gradual increased burden on our existing service level provision. Whilst an increase in housing will see additional council tax being collected, only 9% is currently retained by this council.

Local Pressures

The New Homes Bonus is a grant paid by central government to local councils to reflect and incentivise housing growth in their areas.

It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.

Changes introduced in 2017/18 will mean further reductions to the level of New Homes Bonus receivable in 2018/19, at a time when the impact of large increases to housing from past successful planning applications is beginning to be felt.

Increased housing also has other impacts on local infrastructure, and we will continue to maximise on our ability to exercise Section 106 agreements to help fund infrastructure provision and also to help ensure affordable housing is provided. With 2018/19 being the start of the five-yearly review of the council’s core strategy we will also consider the adoption of the community infrastructure levy on newly-built homes

Demographics

The largest demographic pressure comes from the age structure of the borough. We have a higher than national and regional average population over the age of 60 and also have the added pressure of our younger people leaving the borough in search of work and affordable housing.

Through the continuing work on economic development we hope to create more opportunities for our younger people and through the use of our Section 106 agreements ensure the provision of affordable housing to allow them to stay within the borough.

As previously highlighted, rural isolation exacerbates the issues faced by our ageing population and also adds to the problems faced by our younger population who may need to travel out of the borough for work, but due to transport infrastructure find it difficult or unaffordable to stay.

Through an ageing population we see a higher instance of residents that have a disability, who experience mobility issues, or who suffer from a mental health disorder such as dementia.

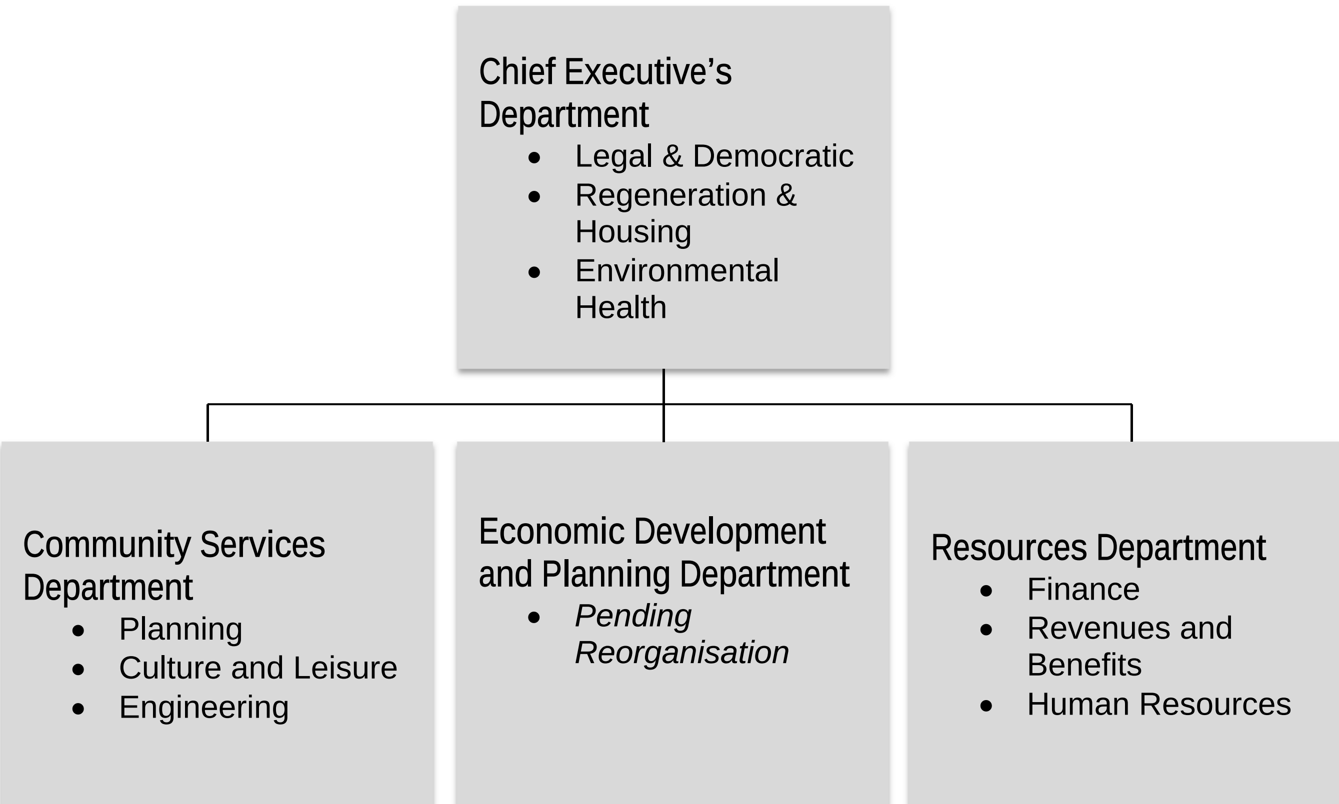
There is a difficult balance to be made in the provision of our services as we strive to ensure equal access for all. We must ensure that our services are provided in the best way to meet our resident’s needs.

Workforce

Organisational Structure

The organisational structure of the council is headed by the Corporate Management Team which consist of the Chief Executive, Director of Community Services, Director of Resources and the yet to be appointed Director of Economic Development and Planning. Each member of the Corporate Management Team has responsibility for one of the council's 4 departments. However, pending restructuring for the new Economic Development and Planning Department, staff currently sit only within the three departments of Chief Executive's Department, Community Services Department and Resources Department.

Table 6 – Organisational Structure as at 1 January 2018

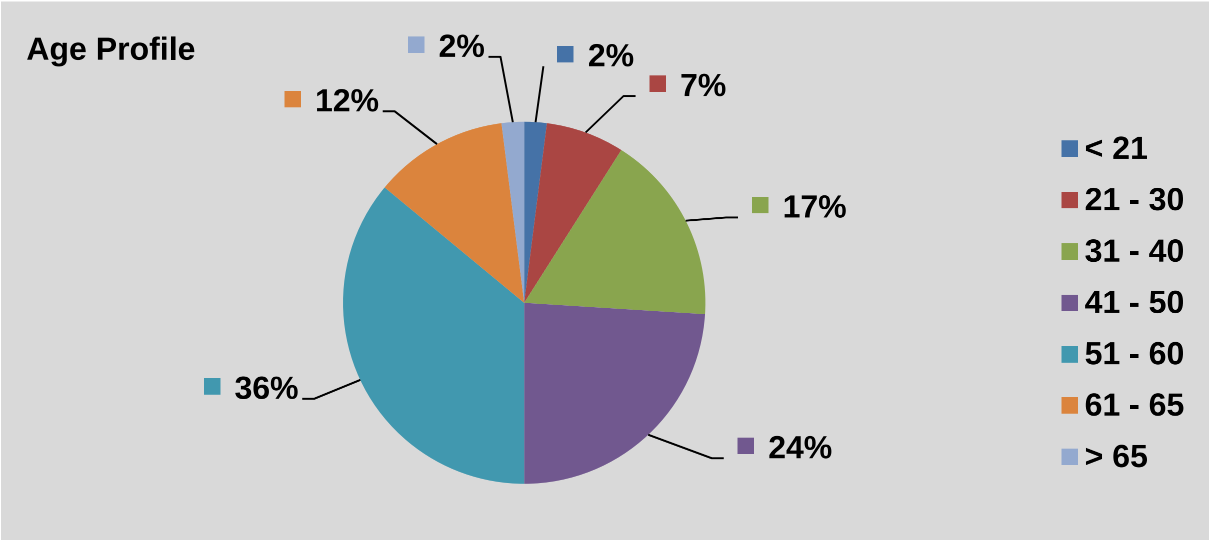


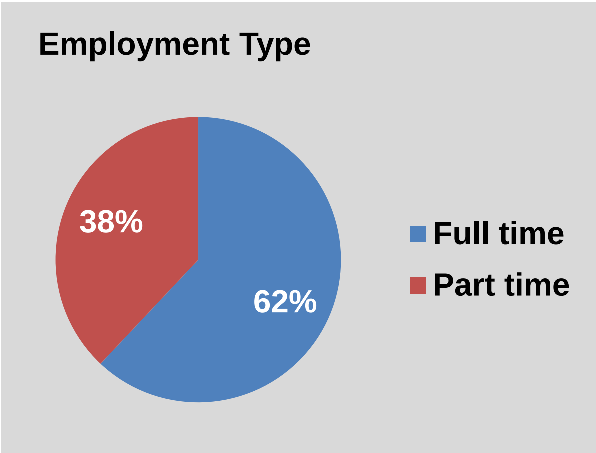
As at the 1 January 2018 the council employed 234 members of staff. The overall establishment consisted of 235 posts, of which 15 were vacant posts at 1 January.

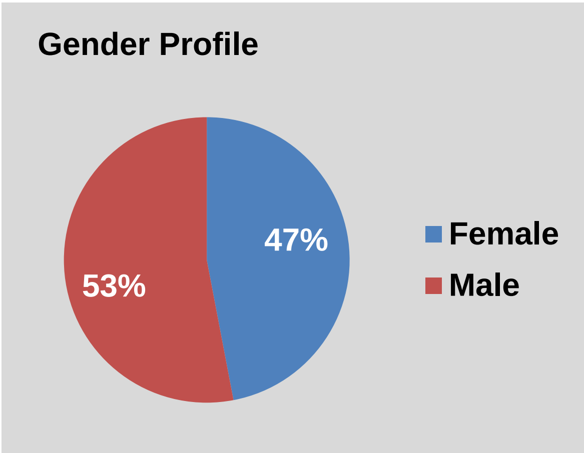
Workforce Demographics

The tables below provide some information on the profile of our employees as at 1 January 2018.

Table 7 – Workforce Demographic as at 1 January 2018







Comparing this to the national picture for local government, the council is similar in terms of the level of percentage male/female employees. Looking at all Shire Districts, the comparators for part time/full time employment are 36% and 64% respectively (38% and 62% for Ribble Valley BC).

Slightly less comparable is the gender profile, with the Female/Male percentages being 53% and 47% respectively for all Shire Districts (47% and 53% for Ribble Valley BC).

Employee Costs

As with most of local government, our highest element of cost is employee costs. This element falls between direct employee costs (pay) and indirect employee costs (such as training costs).

The table below shows a summary of the pay costs of the council and how these have been forecast.

Table 8 – Forecast Direct and In-Direct Employee Costs

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Direct Employee Costs				
Base	6,281	6,491	6,686	6,820
Savings	-83	0	0	0
Growth	91	0	0	0
Inflation rate	2.00%	3.00%	2.00%	2.00%
Inflation	127	195	134	136
Contingency	75	0	0	0
Forecast Direct Employee Costs	**6,491**	**6,686**	**6,820**	**6,956**
In-Direct Employee Costs				
Base	156	172	178	181
Savings	-2	0	0	0
Growth	15	0	0	0
Inflation rate	2.00%	3.00%	2.00%	2.00%
Inflation	3	5	4	4
Forecast In-Direct Employee Cost	**172**	**178**	**181**	**185**
Total Forecast Employee Costs	**6,664**	**6,864**	**7,001**	**7,141**

Within the forecast direct employee costs is an allowance for staff turnover within the year to allow for the potential reappointment on lower pay points and any gap before reappointment. Each vacancy that arises in year must also be fully considered by the corporate management team through a ‘request to reappoint’ made by the relevant head of service which includes any considered alternatives for the post.

Being the highest element of cost this is an area that has seen past restructuring in order to achieve savings on the corporate budget. A service review was completed in 2011 which achieved substantial savings of £635,160 in 2012/13 and onward. This was the second phase of the review of the Council structure, the first of which was completed in 2010 and was the review of senior management. The first phase of the structure review achieved savings averaging £108,000 per annum over five years.

The Savings that are shown are in respect of the payments of current service pension contributions by the council. After the 2017/18 budget had been set, the council negotiated a prepayment option for its contributions to the pension scheme, this achieved savings on the existing arrangements of just over £30K for a full year.

The next triennial pension fund actuarial revaluation will take place in 2019 and impact the 2020/21 financial year onwards. As the last actuarial revaluation in 2016 has only just impacted on the 2017/18 financial year there have been no implications forecast at this point in time for the 2019 actuarial revaluation as there is too much uncertainty at this stage to forecast anything meaningful.

The Growth shown in the table above reflects a more recent structure review with the creation of a new directorate of Economic Development and Planning. Whilst an increase in budget cost is shown here under workforce costs, this is a reflection of a policy change which is anticipated to deliver economic growth to the borough and with it potentially an increase in retained business rates income. At this stage the full restructuring has not taken place with staff remaining in their existing departments. However, once this full restructuring takes place the result will be cost neutral with no further staff to be recruited above the existing establishment list.

Staff and Member Training

Within indirect employee costs falls training costs. These budgets are a mix of decentralised service training budgets and also a centralised corporate training budget.

Decentralised service training budgets provide for professional training or role specific training, whilst the centralised corporate training budgets provide for themes of training need that are identified across the organisation as a whole. The centralised training budget also provides for member training.

The forecast for training budgets for 2018/19 is shown below and for future years are forecast to increase year on year by 2%:

- Decentralised: £45,850
- Centralised: £15,540

Inflation

Consumer Price Index

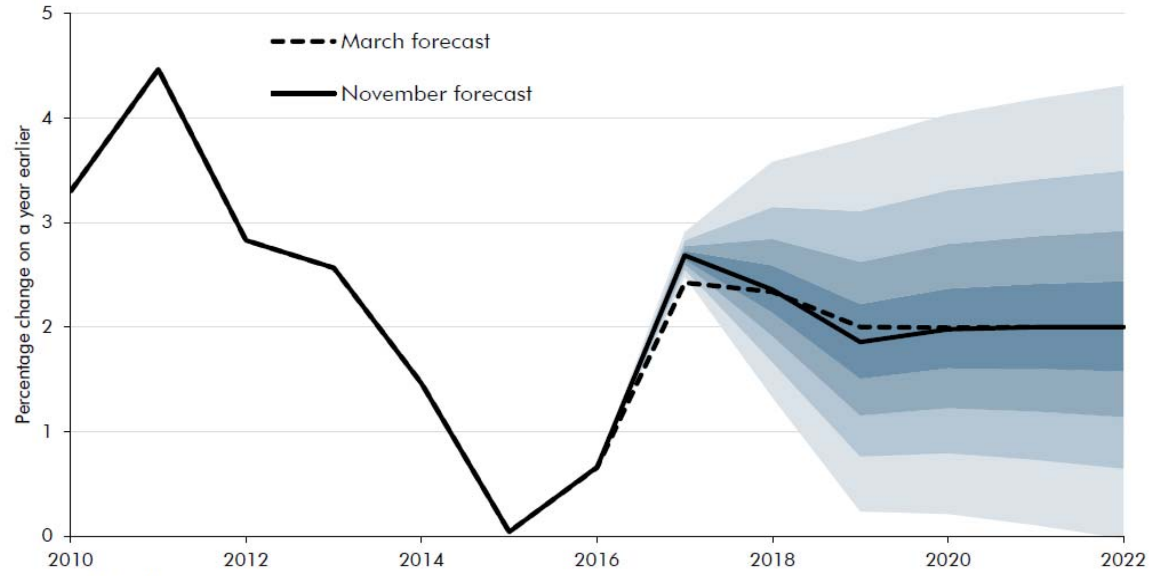
Annual CPI inflation for the third quarter of 2017 was 2.8%, 0.2 percentage points higher than the OBR's March 2017 forecast and expected to peak at 3.0 in the final quarter. The fall in the pound has resulted in higher import price inflation.

The Office of Budget Responsibility predicts CPI inflation to reach 2.4% in 2018, exceeding the Government's target of 2%. The rate is expected to drop slightly below the government target to 1.9% in 2019 and then remain at 2% in the years 2020 – 2022. The OBR forecast assumes that the Bank of England will bring CPI inflation back to the 2% target over the medium term, consistent with the Chancellor's remit to the Monetary Policy Committee (MPC).

The fan chart below illustrates the range of possible outcomes that may be expected if past official forecast errors were a reasonable guide to the future. It also shows that the revisions to the OBR inflation forecast since March are small in comparison to historical differences between forecasts and outturns.

The solid black line shows the OBR's median forecast, with successive pairs of lighter shaded areas around it representing 20% probability bands.

Table 9 – Consumer Price Index (CPI) Inflation Fan Chart



Source: ONS, OBR

CPI inflation is used by the Government to index many tax allowances and thresholds, and to uprate benefits and public sector pensions.

For this council one of the main impacts of CPI inflation is on business rates. From April 2018, business rates will rise in line with the lower Consumer Prices Index (CPI) measure of inflation and not the Retail Prices Index (RPI) as was previously the case. They would have been due to increase in April 2018 in line with September's RPI of 3.9%, while CPI was 3% that month.

This will result in lower business rates for many businesses and will inevitably be good for economic development in the area. As a government policy the council will not directly lose out under Business Rates Retention as we will be compensated for the move under Section 31 Grants.

Retail Price Index

RPI inflation is no longer a National Statistic, as it falls short of agreed international statistical standards. The Government does still use it to calculate interest payments on index-linked gilts, student loan payments and the review of excise duties.

RPI inflation averaged 3.8% in the third quarter of 2017, 0.1 percentage points below the OBR’s March forecast. The main components to this being:

- a lower house price inflation forecast, which feeds into the housing depreciation component of RPI inflation; and
- a lower path for growth in the mortgage interest payments component of RPI inflation, due to lower paths for mortgage rates and mortgage debt.

Table 10 – Retail Price Index (RPI) Inflation

Whilst RPI does not now particularly impact on the council, RPIX is used as an alternative around contract pricing. RPIX includes all the items included within RPI but excludes mortgage interest payments. The council uses the annual increase in RPIX to uprate the value of some of its contracted services, for example, CCTV monitoring and road sweeper hire.

Employee Costs

On the 5 December 2017 National Employers made a final pay offer covering the period 1 April 2018 to 31 March 2020. At the time of the development of this strategy the pay offer had been turned down by the Unions and no agreement reached.

As a consequence the budget for 2018/19 has been prepared on the basis of a 2% increase, but with a contingency of £75,000 based on the National Employers final pay offer referred to above, and detailed below

1 April 2018 ('Year One'):

- **Bottom-Loading on SCPs 6-19 incl**
  The Employers considered it was necessary for higher increases on the lower pay points in order to continue to close the significant gap with the National Living Wage (NLW). Therefore this part of the offer would result in a new bottom rate of £8.50 per hour on SCP6
- **Increase on SCPs 20 and above**
  A flat-rate increase of 2.0%

This first year of the pay offer would increase the national paybill by 2.707%

1 April 2019 ('Year Two'):

- The Employers agreed that the bottom rate of the new pay spine should not be pegged to the National Living Wage rate but should allow for some 'headroom'. Therefore the offer is for a bottom rate of £9.00 per hour
- In order to deal with the compacting of differentials at the lower end of the spine it is proposed that the existing bottom twelve pay points are 'paired off' into six new pay points.
- To further dilute the impact of compacting the lower pay points, the offer includes 'ironing out' the current random gaps between pay points and having even increments of 2.0%
- From new SCP23 onwards, a flat-rate increase of 2.0% and retention of the current random differentials

This second year of the pay offer would increase the national paybill by 2.802%

The total increase to the national paybill over the two-year period would be 5.584%

Energy Costs

The Council procures it gas and electricity supplies through a framework agreement using a purchase in advance option. This means that the estimated units of usage are purchased 12 months in advance of actual use. Therefore any current fluctuations in prices within the utilities market will not impact upon the council for another 12 months, when the units purchased now are consumed.

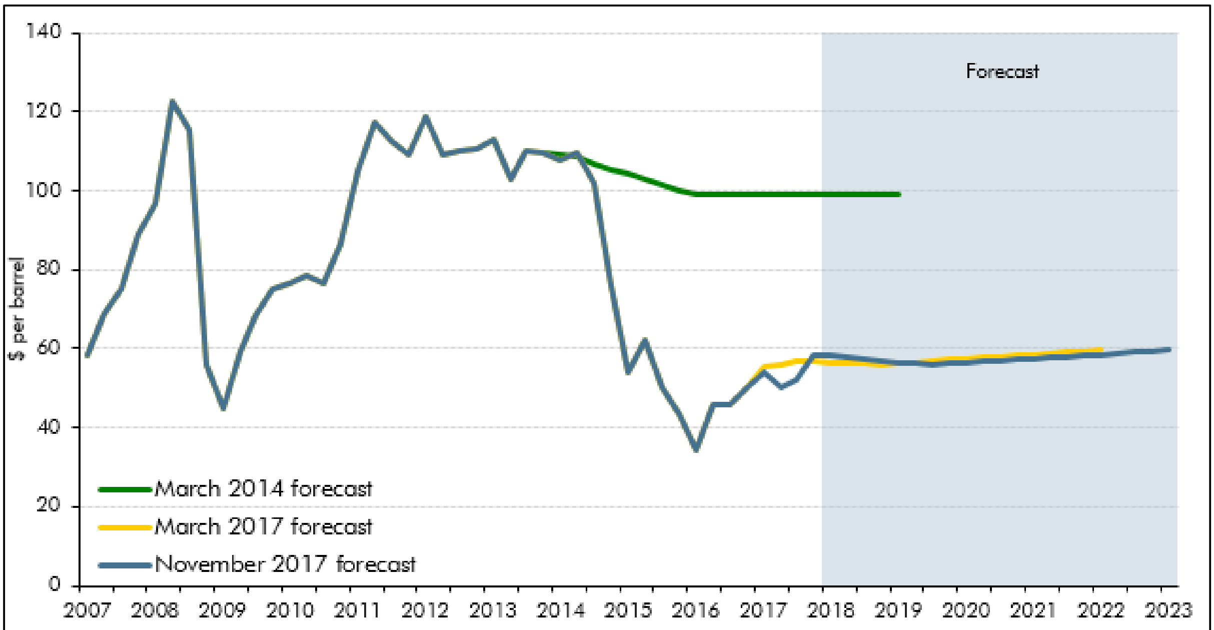
Vehicle Fuel

Many forecasts predict that fuel prices will increase slightly in the first half of 2018. The movement on prices is very much dependent on US shale oil producers, how OPEC will respond to them and what happens to the global economy.

It is possible that Brexit will play a part in the fluctuation in prices if Brexit negotiations don't go well. The value of Sterling will be impacted negatively against the dollar, so the price of fuel at UK pumps will rise as a result, but it could also go the opposite way if trade talks go well and there is more confidence about the economy, resulting in Sterling's value rising and fuel prices falling.

With the growth of electric and hybrid vehicles, alternative energy is making the markets question the value of oil for the longer term and this could have a knock-on effect with current fuel prices and petrol retailers own plans. Also the impact of pollution and the recent changes in policy around diesel may continue leading to increases in duty on fuel for the first time in 8 years at the next Budget.

Table 11 – Office for Budget Responsibility: Oil Price Assumptions



Source: Datastream, IMF, OBR

Key Sources of Income

Council Tax

The Government has for a number of years in the past encouraged councils to freeze the level of council tax through the offer of various Council Tax Freeze Grants. However, in the four-year settlement figures released by the government our 'Spending Power' is shown building through an increase of £5 to our council tax level at Band D.

Whilst the setting of council tax levels is a local decision, not a central government decision, the inclusion of this increase could be interpreted as a signal from central government.

As we have a council tax level in the bottom quartile the government have allowed us to increase our council tax by £5.

Business Rates

Business Rates Retention forms an important element of the council's Settlement Funding Assessment. The level of baseline funding to be received through Business Rates from 2018/19 to 2021/22 has been indicated by the government as part of the four-year finance settlement.

The actual income received in any given year from the many elements of business rates funding can be heavily influenced by external factors that are wholly out of our control, making business rates a potentially highly volatile income stream.

Each year we may be in a position to forecast growth above that baseline when we complete the business rates NNDR1 return. Any further growth (or the impact of any decline) that occurs within each financial year over and above that forecast in the government return NNDR1, will not be benefitted from/or felt until future years, through the distribution of any surplus or deficit on the collection fund relating to business rates. This is declared to the government and the major precepting bodies through the completion of government return NNDR3 at the end of the financial year.

The Lancashire Business Rates Pool has been designated by the Secretary of State for Communities and Local Government and the retained levy in Lancashire is distributed each year as follows:

- The County Council is paid 10% of the overall retained levy;
- Each district within the pool retains 90% of their levy.

As part of the pool arrangements, one authority must be designated as lead authority, which in the case of the Lancashire Business Rates Pool is Ribble Valley Borough Council. For this, a fee of £22,000 per annum is received (£20,000 prior to 2018/19) i.e. £2,000 payable per pool member including ourselves.

As a result of the volatility around business rates, the council has an earmarked reserve in order to cushion the impact of future fluctuations in funding that we are to receive. This is as a result of being part of the pool arrangements, as under such circumstances the Government do not provide any safety net position for pool members.

Revenue Support Grant

The 4 year settlement shows that our grant reductions will continue in future years. By 2019/20 not only will our Revenue Support Grant be eliminated but the Government proposes to introduce a further reduction of £109,000 which will increase our tariff payable under the Business Rates Retention Scheme. This negative Revenue Support Grant is an area that is currently being looked at by the government as they are mindful of the issue for a large number of councils. In 2018/19 we will receive £109K through Revenue Support Grant.

New Homes Bonus

The New Homes Bonus commenced in April 2011 and is paid to the council by the Government for new homes and empty properties brought back in to use. The amount receivable is equivalent to the national average council tax for each property and is receivable every year for the following six years. The amount is also supplemented with an additional amount for affordable homes.

New Homes Bonus grant is shared 80:20 between district and county councils in two tier areas. It is paid as an unringfenced grant, which means local authorities are free to decide how to spend it. The New Homes bonus can be spent on either revenue or capital, or placed in a local authority's reserves.

Our total allocation for 2018/19 will be £1,573,388 compared with £1,576,990 received in 2017/18. We currently commit £793k of new homes bonus each year to fund the revenue budget. We also use some of our allocation to support our capital programme.

There are now new added pressures on this resource following the significant changes that were announced in the tapering of the grant with effect from 2017/18 onwards. We have also seen the introduction of a new growth baseline, below which the New Homes Bonus is not paid.

The Government have also indicated that they are considering withholding New Homes Bonus from local authorities that are not planning effectively i.e. making positive decisions on planning applications and delivering housing growth. They will also consider withholding payments from homes built following an appeal.

As part of the local government grant settlement it has been confirmed that there will be no further changes to the New Home Bonus Scheme for 2018/19.

- the number of years for which legacy payments are made will be 4 years from 2018/19; and
- the baseline for housing growth set initially at 0.4% of the council tax base for 2017/18 will remain at this level

It was also announced that whilst the Government will not be withholding payments for homes that are built following an appeal, they will keep this under review.

Rural Services Delivery Grant

The Government previously announced a considerable increase in support for the most sparsely populated rural areas by way of a Rural Services Delivery Grant.

For Ribble Valley we received £86,603 in 2017/18 and were expecting this amount to reduce to £66,618 for 2018/19. For 2018/19 the Government announced that they would reinstate the level of the grant to the same as the current year. However, in the final settlement announcement for 2018/19 the grant was further increased for to

£107,254 – the same level as that received in 2016/17. Our past and anticipated allocations are shown below:

Table 12 – Past and Anticipated Allocations of Rural Services Delivery Grant

Financial Year	Past and Anticipated Grant £
2016/17	107,254
2017/18	86,603
2018/19	107,254
2019/20	86,603

From 2017/18 onwards it was agreed this funding will be used to support our net revenue expenditure.

Charges for Services

At the time of setting the 2018/19 budget, clear guidelines were given to service committees by the Budget Working Group on the review and setting of their service fees and charges.

- Any charges should look to meet the costs of providing the service being used.
- As an absolute minimum all fees and charges should be increased by 2%
- Where possible comparisons should be made to the charges being made by our neighbours in Lancashire – or wider if appropriate.
- We should thoroughly review our services for areas where we are not charging – but where a charge may be made/appropriate.
- As part of the review, we should be looking for innovative ways of charging.

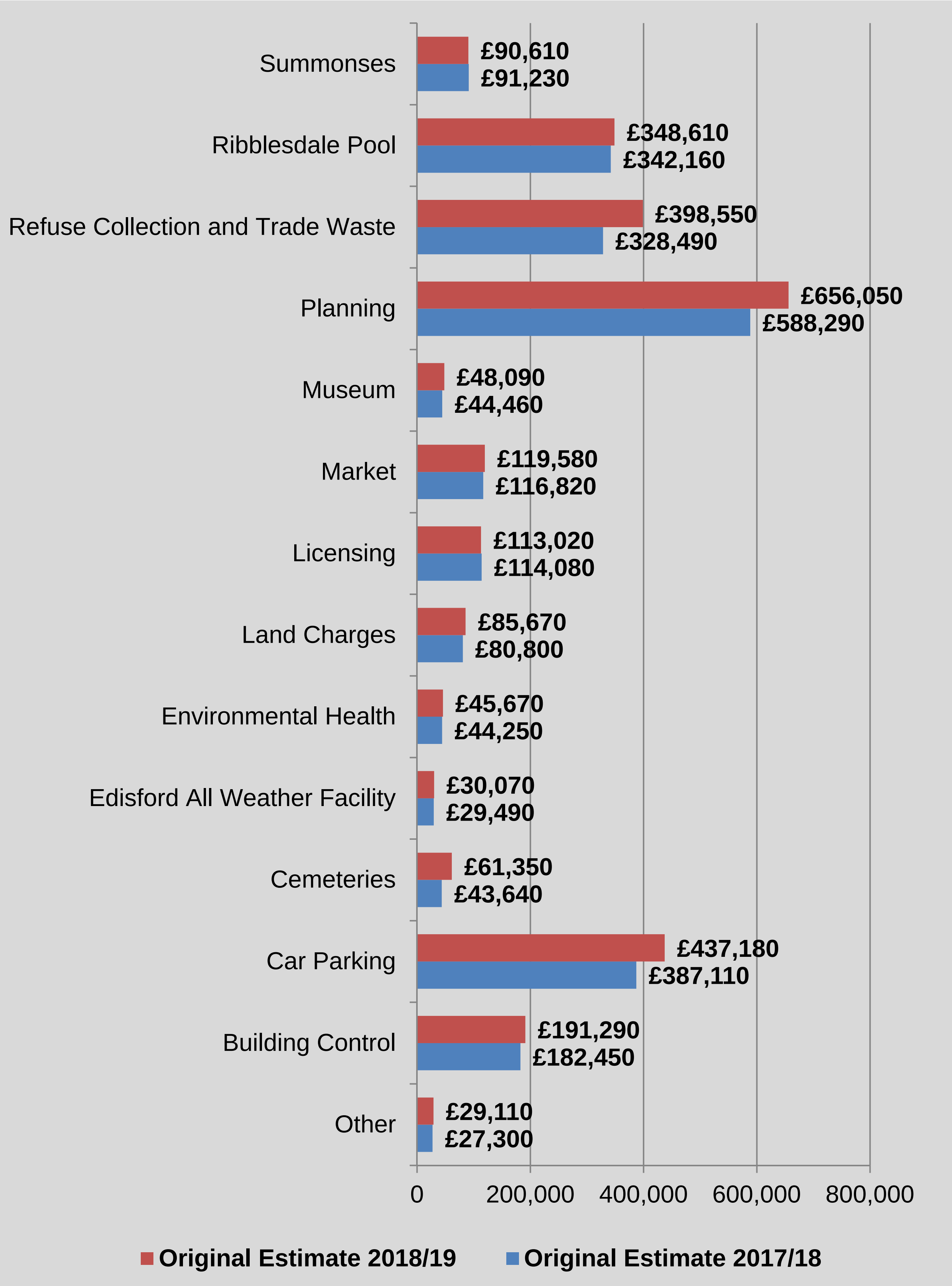
Our overall fees and charges budget across all committees for 2018/19 is £2,650,570, which is an increase of 9.7% on that originally budgeted for in 2017/18.

Within this were some sizeable increases, particularly in the areas of Car Parking (12.9%), Planning (11.5%), Cemeteries (40.6%) and Refuse Collection and Trade Waste (21.3%).

Planning application fees are set nationally by the Government. On 21 February 2017 the Government wrote to all planning authorities with an offer to increase planning fees by 20% with the proviso that the increased income raised should be invested in their planning departments. We accepted the Government's offer and the 20% increase in planning fee income is included in the budgets shown. However, the total budgeted planning fee income has been reduced below this 20% due to a down turn in the level of planning applications currently being experienced.

The table below provides a high level picture of our main income streams under fees and charges

Table 13 – Main Fees and Charges Income Streams



Service Specific Grants

Some of our services are in receipt of a number of service specific grants to help in their provision. These are received from external sources and are in some circumstances ring-fenced in the manner in which they can be used.

Those grants above £10,000 that are budgeted to be received in 2018/19 are summarised below:

Department for Work and Pensions

- **Housing Benefits Rent Allowances Subsidy Grant**
  Budgeted Income for 2018/19: £6,301,700
  This grant is received each year and covers the cost of rent **allowance** housing benefit payments made to eligible residents in the borough, on behalf of the DWP. There is certainty over the continued receipt of this service specific grant income in 2018/19 and it is anticipated that this grant income will continue over the term of this strategy.

- **Housing Benefits Rent Rebate Subsidy Grant**
  Budgeted Income for 2018/19: £21,110
  This grant is received each year and covers the cost of rent **rebate** housing benefit payments made to eligible residents in the borough, on behalf of the DWP. There is certainty over the continued receipt of this service specific grant income in 2018/19 and it is anticipated that this grant income will continue over the term of this strategy.

- **Housing Benefits Administration Grant**
  Budgeted Income for 2018/19: £86,781
  This grant is received each year and is a payment made to the Council for administering the payment of all housing benefits to eligible residents in the borough, on behalf of the DWP. There is certainty over the continued receipt of this service specific grant income in 2018/19 and it is anticipated that this grant income will continue over the term of this strategy. Recent years' trends suggest that the level of this funding will reduce by 10% each year.

- **Discretionary Housing Payments Funding**
  Budgeted Income for 2018/19: £47,570
  This grant is received each year and covers the cost of housing benefit related additional discretionary payments made to eligible residents in the borough, on behalf of the DWP. There is no certainty over the continued receipt of this service specific grant income, but it is anticipated that this grant income will continue over the term of this strategy.

- **Universal Credits Service Funding**
  Budgeted Income for 2018/19: £10,240
  This grant is received each year and is a payment made to the Council for the Universal Credit support service provided to Ribble Valley residents, on behalf of the DWP. There is no certainty over the continued receipt of this service specific grant income, but it is anticipated that this grant income will continue over the term of this strategy.

Ministry of Housing, Communities and Local Government

- **Local Council Tax Support Administration Grant**
  Budgeted Income for 2018/19: £32,499
  This grant is received each year and is a payment made to the Council for administering Local Council Tax Support to all eligible residents in the borough, on behalf of the MHCLG. There is certainty over the continued receipt of this service specific grant income in 2018/19 and it is anticipated that this grant income will continue over the term of this strategy. Recent years' trends suggest that the level of this funding will reduce by 10% each year.

- **Flexible Homelessness Support Grant**
  Budgeted Income for 2018/19: £40,000
  This grant can only be used to prevent or deal with homelessness. There is certainty over the receipt of this service specific grant income in 2018/19 only and there is no guarantee that this grant income will continue over the full term of this strategy.

- **Business Rates Cost of Collection Grant**
  Budgeted Income for 2018/19: £90,000
  This grant is received each year and is a payment made to the Council for administering the billing and collection of business rates in our area. There is certainty over the continued receipt of this service specific grant income in 2018/19 and it is anticipated that this grant income will continue over the term of this strategy.

Current Financial Position

Base Budget

The development of our budgets each year begins with the base budget. The base budget represents the continuation of the council's operations in the same way as in the previous financial year without any changes to the costs or manner in which those services are provided.

Each year, the following year's Original Estimate uses the base budget as the starting point and the budget is then layered and developed until arriving at the new Original Estimate.

This is then adjusted for such items as:

- Savings
- Inflation
- Unavoidable Changes to Service Costs
- Changes in Capital Charges and Support Service Costs

On setting the budget for a particular year this effectively creates the base budget for the following year. On this basis the base budget for our net committee expenditure in 2018/19 was £6,995,600. After making the adjustments detailed above, the net committee expenditure budget was set at £7,403,100.

This value of £7,403,100 will now form the base budget for net committee expenditure in the budget setting process for 2019/20.

This net committee expenditure position is impacted on by our use of or by our adding to reserves.

Reserves

There may be occasions where using reserves to soften or smooth the impact of cuts and unexpected expenditure is a valid short-term tactic provided there is a sound medium-term financial plan. CIPFA's advice (Balancing Local Authority Budgets) is that local authorities should avoid using one-off reserves to deal with gaps between recurring funding and ongoing spending. Such a tactic in itself cannot resolve such gaps and it is important that such reserves are replenished or there will be no funds to protect against the impact of future risks and unexpected expenditure.

CIPFA’s research into local authority reserve levels shows that authorities have increased their reserves by around 30% over the last four years. For many authorities this increase is due to their ongoing uncertainty about future levels of government grant and the risk of a sudden and relatively immediate drop in their Revenue Support Grant.

General Fund Balances

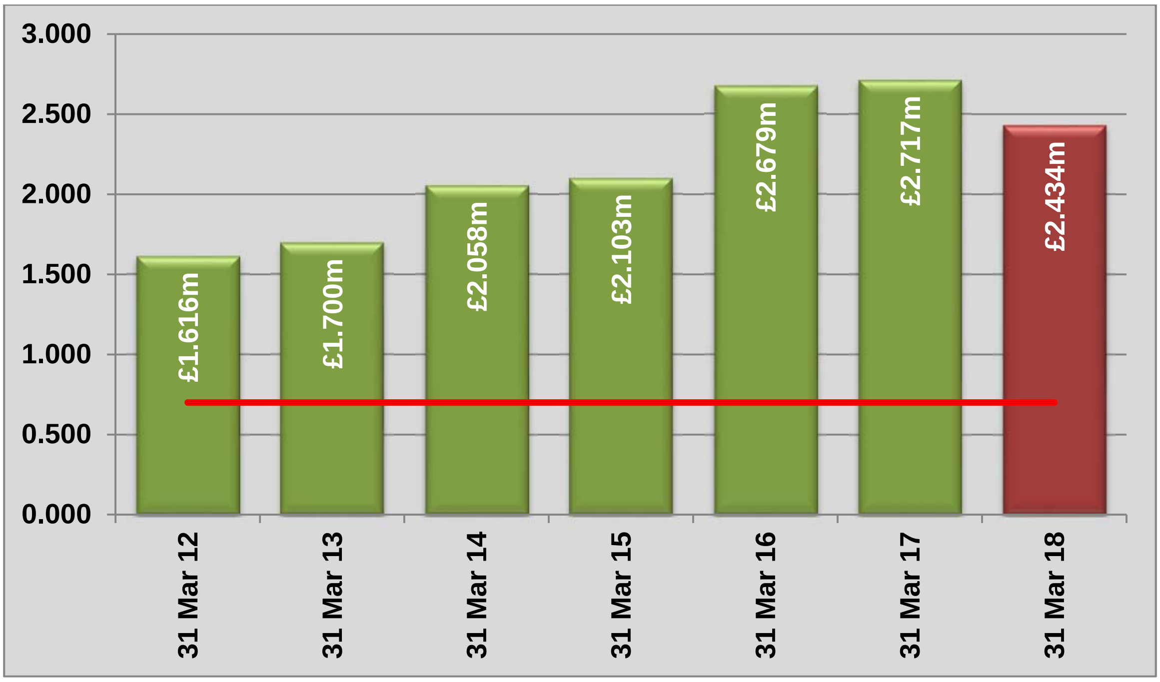
General fund balances are not set aside for any specific known or anticipated purpose.

It is very important for the council to maintain a healthy level of balances to cover for unforeseen events and also provide a stable level of resources for future planning. This has been particularly important in more recent years, particularly prior to the four-year settlement when there was very general knowledge of likely continuing falls in local government core funding, but little knowledge of who would be affected and by how much.

In our budget forecast shown elsewhere in this document, we look to use an element of our general fund balances to help support the revenue budget. It must be noted that it is recommended by the council’s S151 Officer (the Director of Resources) that general fund balances should not be allowed to fall below £700,000. The setting of this threshold requires a considerable degree of professional judgement, and is tailored to local circumstances.

The table below shows the level of our general fund balances over the past few years at each financial year end, and the level of general fund balances anticipated at the 31 March 2018.

Table 14 – Past and Forecast General Fund Balances



*Red line shows recommended **minimum** level of General Fund Balances at £700,000*
Columns in Green are Actuals and Columns in Red are Estimates

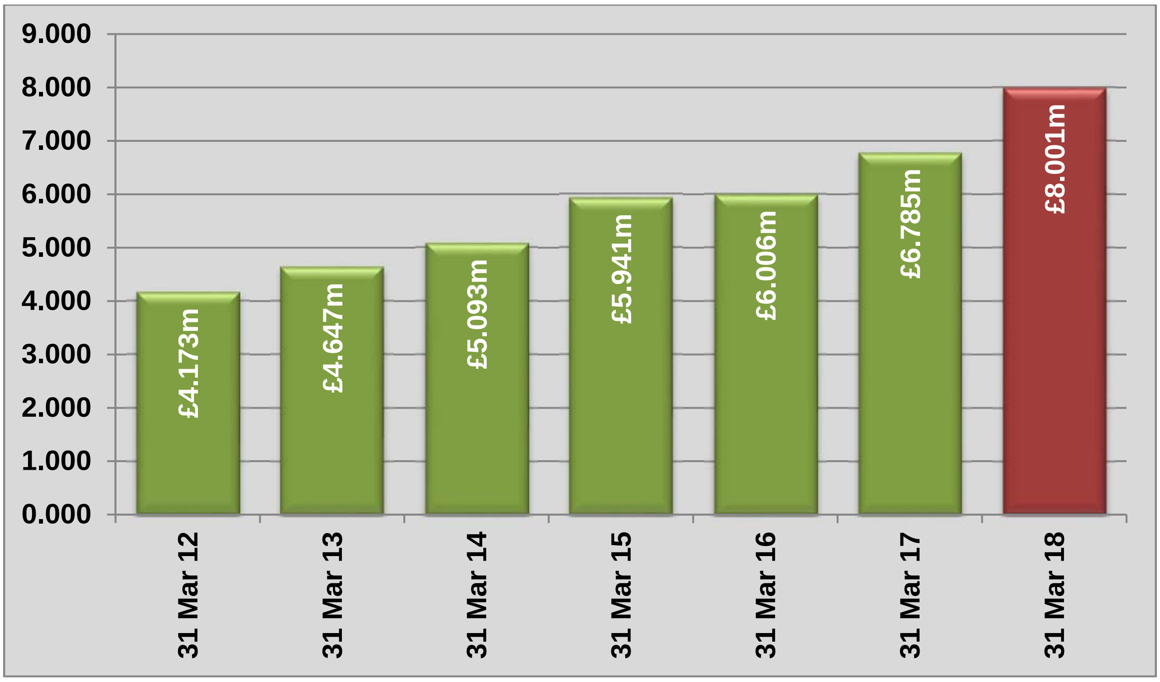
Whilst the council forecasts use of £250,000 per annum in the medium term to help support the revenue budget, this is seen as a short term measure and cannot be sustained in the longer term. It would be just less than 8 years before the council reached its recommended minimum level of general fund balances of £700,000 if we continued to use £250,000 per annum to support the revenue budget. This also assumes no other unforeseen cost pressures arising in the meantime that may require us to use our general fund balances.

Earmarked Reserves

We use our earmarked reserves to support both our revenue and capital budgets and over the next 5 years have a number of commitments already made. We also anticipate a number of additions to our earmarked reserves over the coming years, generally reflective of grants towards future expenditure.

The table below shows the level of our general fund balances over the past few years at each financial year end, and the level of general fund balances anticipated at the 31 March 2018.

Table 15 – Past and Forecast Earmarked Reserves



Columns in Green are Actuals and Columns in Red are Estimates

Past funding uncertainties have required a prudent approach to ensure financial stability and this has been reflected through the management of our general and earmarked reserves.

This approach was well founded in light of the four year settlement and the future reductions to be experienced in our core government funding.

Reserves are important to local authorities as, unlike central government, we cannot borrow money over the medium-term, other than for investment in assets, and we are required to balance our budgets on an annual basis.

Reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;

- a means of building up funds, this is done through our earmarked reserves to meet known or predicted requirements; our earmarked reserves are accounted for separately but remain legally part of the General Fund.

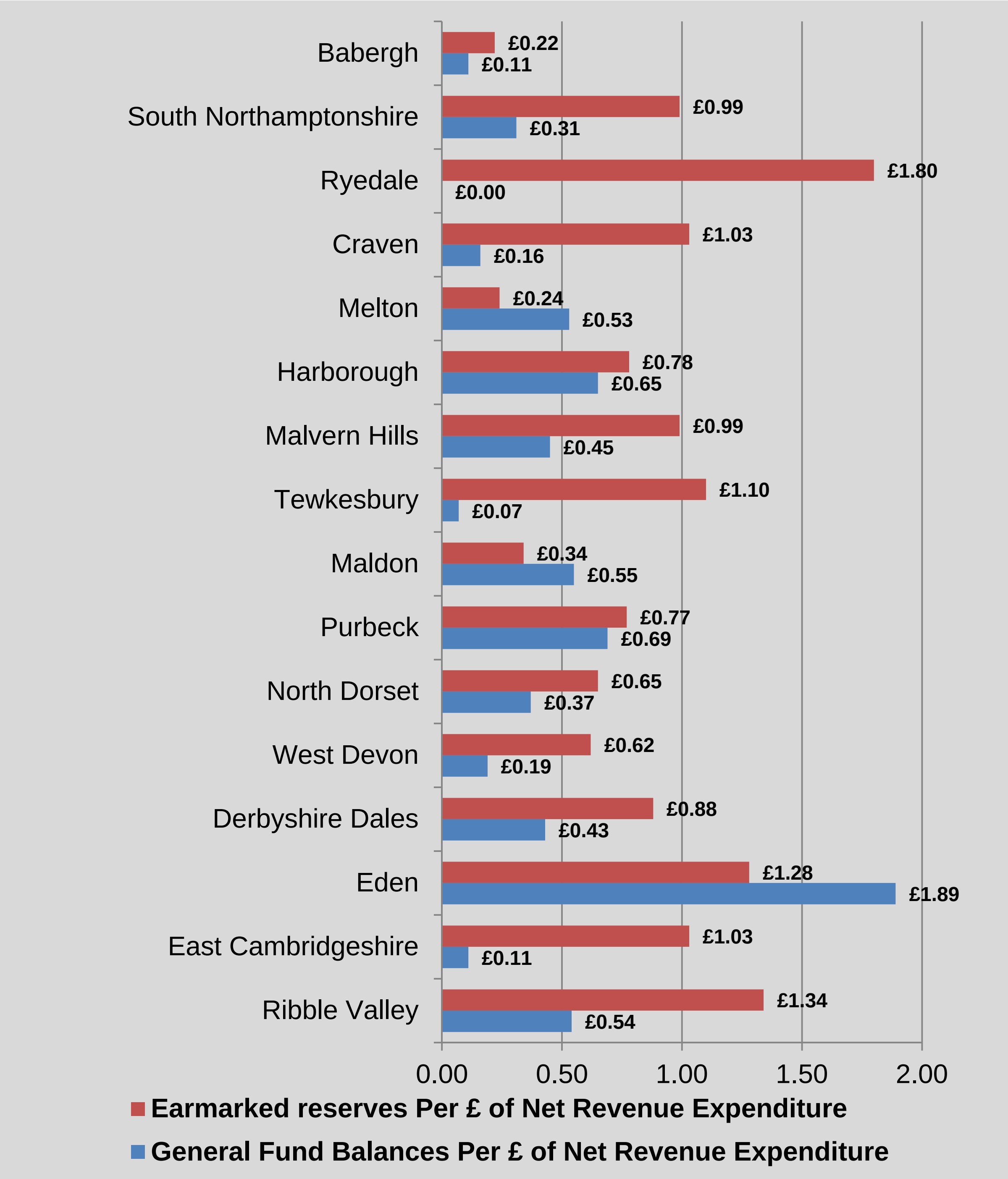
When comparing such balances across councils it must be borne in mind that there are differing circumstances and pressures from council to council.

This is particularly the case with regard to earmarked reserves as this is often where a local authority will build resources for a future project. This is much the case for this council, where a large proportion of our earmarked reserves are attributable to funding future capital schemes in our five year capital programme.

Balances and Earmarked Reserves Comparison

A comparison has been undertaken of our earmarked and general balances as at 31 March 2017 (latest available) with those of our CIPFA family group nearest neighbours. This is a group of authorities that best compare to our own borough in respect of a number of indices.

Table 16 – Usable Reserves per £ Net Revenue Expenditure 31 March 2017



Collection Fund

The Council is responsible for collecting the Council Tax to pay for services provided by Lancashire County Council, the Borough Council and its Parishes, Lancashire Police Authority and Lancashire Combined Fire Authority.

The Council is also responsible for collecting the Business Rates, which are the means by which businesses and others who occupy non-domestic property make a contribution towards the cost of local services.

The Collection Fund is ringfenced and shows the income received from Council Tax payers and Business Rate payers. It also shows how the income is distributed between Lancashire County Council, the Borough Council and its Parishes, Lancashire Police and Crime Commissioner and Lancashire Combined Fire Authority.

In the January of each year a forecast is made of the closing position for the collection fund and any surpluses or deficits are shared and are taken account of in setting the following year's budget.

The forecast position on the collection fund for 2017/18 is summarised below, together with the relevant shares of balances.

Table 17 – Forecast Collection Fund Surplus/(Deficit) 31 March 2018

	Council Tax	Business Rates	Total
Forecast Surplus/(Deficit) at 31 March 2018	**694,588**	**-62,912**	**631,676**
Shared amongst:			
Central Government	0	-31,456	**-31,456**
Lancashire County Council	524,995	-5,662	**519,333**
Police and Crime Commissioner for Lancashire	71,096	0	**71,096**
Lancashire Combined Fire Authority	28,146	-629	**27,517**
Ribble Valley Borough Council	70,351	-25,165	**45,186**

Capital Programme

Current Capital Programme

The council operate a five-year capital programme, with a review undertaken every year to examine whether the programme still marries with our current and future plans.

Additionally, each year there is a bidding process for the new final year of the five-year capital programme. Such bids are examined against the council's priorities and for affordability.

The Approved Five Year Capital Programme

As previously mentioned the overall capital programme is for a five year period, and whilst the coming financial year is fixed, the remaining four years of the capital programme remain in a relatively fluid state and are open to review on an annual basis.

The table below provides a summary by committee of the future five-year capital programme from 2018/19 to 2022/23.

Table 18 – Approved Capital Programme for 2018/19 to 2022/23

Committee	2018/19	2019/20	2020/21	2021/22	2022/23	TOTAL
Community Services	712,200	1,979,320	354,120	282,000	685,800	**4,013,440**
Economic Development	100,000	0	0	0	0	**100,000**
Health and Housing	522,000	347,000	360,500	360,500	347,000	**1,937,000**
Planning and Development	0	14,500	0	0	0	**14,500**
Policy and Finance	156,420	45,000	0	0	358,500	**559,920**
TOTAL	**1,490,620**	**2,385,820**	**714,620**	**642,500**	**1,391,300**	**6,624,860**

Funding

The council has always sought to maximise funding for capital, including any from revenue sources.

The council's funding policy has been to set programmes which address its key priorities and to fund these by utilising prudential borrowing, capital receipts (both in hand and anticipated in year) and earmarked reserves such as the capital reserve, VAT shelter and New Homes Bonus, in a corporate approach, thus providing the maximum investment position.

Provided below is a summary of the proposed funding of the five year capital programme.

Table 19 – Approved Financing of the Capital Programme for 2018/19 - 2022/23

Committee	2018/19	2019/20	2020/21	2021/22	2022/23	TOTAL
New Homes Bonus Earmarked Reserve	-209,000	-313,600	-272,000	-272,000	0	**-1,066,600**
Business Rates Growth Earmarked Reserve	-54,656	0	0	0	-468,097	**-522,753**
Other Earmarked Reserves	-754,964	-233,900	-132,120	-60,000	-229,703	**-1,410,687**
External Funding	-297,000	-519,240	-297,000	-297,000	-297,000	**-1,707,240**
Usable Capital Receipts	0	-89,080	-13,500	-13,500	-396,500	**-512,580**
Borrowing	-175,000	-1,230,000	0	0	0	**-1,405,000**
TOTAL	**-1,490,620**	**-2,385,820**	**-714,620**	**-642,500**	**-1,391,300**	**-6,624,860**

There will be a scarcity of resources available to finance the capital programme in future years after the end of this five-year capital programme. Use of the VAT shelter has been tempered in the period up to 2022/23, as the balance on this reserve will largely be the main source of financing for capital in the future.

The proposals in this report will fully utilise the resources available in a number of earmarked reserves. Total earmarked reserves that will be used over the life of the proposed capital programme will be just less than £2.5million.

The council's policy is to maintain the capital reserve at a level above the minimum recommended balance of £350,000. The table shows that the balance of the capital reserve will remain above this level for the life of the capital programme.

Table 20 – Forecast Use of and Balances on the Capital Earmarked Reserve

	2018/19	2019/20	2020/21	2021/22	2022/23
Forecast Opening Balance	**-636,531**	**-536,531**	**-529,011**	**-529,011**	**-529,011**
Taken from the Reserve	100,000	7,520	0	0	0
Forecast Closing Balance	**-536,531**	**-529,011**	**-529,011**	**-529,011**	**-529,011**
Recommended Minimum Balance	**-350,000**	**-350,000**	**-350,000**	**-350,000**	**-350,000**
Usable Balance Remaining	**186,531**	**179,011**	**179,011**	**179,011**	**179,011**

Whilst a balance above the minimum of £350,000 remains on the Capital Reserve over the programme's life, this allows some contingency for any urgent schemes which may need approval outside the normal bidding rounds, particularly where alternative or external resources may not be available.

Furthermore, there are a number of funding streams for the capital programme that rely on savings or asset sales being achieved over the life of the programme. As there is a degree of uncertainty around these being achieved at this stage, the balance on the Capital Reserve gives some flexibility to meet any potential shortfall.

Capital Programme and the Prudential Code

The Capital Programme is an important element of the Medium Term Financial Strategy and as such the main elements are shown below.

The Prudential Code requires the council to make a reasonable estimate of the total capital expenditure that it intends to incur during the forthcoming financial year and at least the following two financial years.

The Prudential Code plays a key role in capital finance in local authorities. Councils determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services. The Prudential Code was developed by CIPFA, the Chartered Institute of Public Finance and Accountancy, as a professional code of practice to support councils in making their decisions. Local authorities are required by Regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.

A sound capital programme must be driven by the desire to provide high quality, value for money public services. The Prudential Code recognises that in making its capital investment decisions the council must have explicit regard to option appraisal, asset management planning, strategic planning for the council and achievability of the capital programme.

The Prudential Code does not specify how the council should have regard to these factors. Instead it concentrates on the means by which the council will demonstrate that its proposals are affordable, prudent and sustainable.

There are a number of changes planned around the Prudential Code, including the requirement to produce a Capital Strategy. This will become a requirement at the time of setting next year’s budget.

The new Code explains that in order to demonstrate that the council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, we should have in place a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

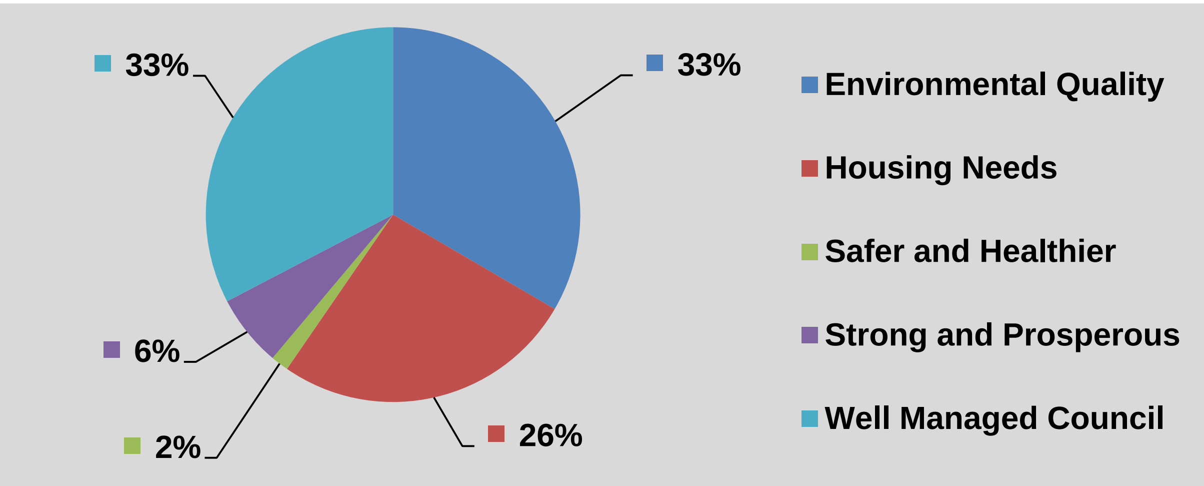
Our Priorities

As with our revenue spend, our capital spend can be matched against the council's priorities.

Priority 1	Priority 2	Priority 3	Priority 4	Priority 5
To ensure a well-managed council providing efficient services based on identified customer needs.	To sustain a strong and prosperous Ribble Valley.	To help make people's lives safer and healthier.	To protect and enhance the existing environmental quality of our area	To match the supply of homes in our area with the identified housing needs

The table below shows how the total capital programme for the period 2018/19 to 2022/23 links to the council's priorities.

Table 21 – Capital Programme 2018/19 to 2022/23 by Council Priority



PART 2

EFFICIENCY PLAN AND LATEST FORECAST

Four Year Finance Settlement: Efficiency Plan

The Four Year Settlement

The local government grant settlement announced in December 2015 gave councils indicative figures for a four year period up to 2019/20.

Whilst presenting us with a continued fall in our government funding, this four-year settlement was designed to give local authorities greater financial certainty.

The provisional four-year settlement information presented to us at that time is presented below.

Table 22 – Provisional Four-Year Settlement Information

	2016/17 £	2017/18 £	2018/19 £	2019/20 £
Revenue Support Grant	623,087	304,319	109,149	0
Baseline Funding Level	1,239,518	1,264,824	1,302,823	1,331,719
Settlement Funding Assessment	**1,862,605**	**1,569,143**	**1,411,972**	**1,331,719**
Tariff/Top-Up	-4,361,493	-3,997,472	-4,177,800	-4,240,132
Tariff/Top-Up adjustment *(often referred to as 'negative RSG')*				-108,866
Safety Net Threshold	1,146,554	1,169,962	1,205,111	1,231,840
Levy Rate (p in £)	0.50	0.50	0.50	0.50

In order to secure the four year settlement as a guaranteed minimum level of funding, each council was required to submit an efficiency plan

As referred to in the first part of this strategy, the budget forecast as reported in September 2017 gave a position where we needed to find substantial savings over the coming years.

- £774,059 for 2018/19
- £956,274 for 2019/20
- £674,027 for 2020/21

In setting the budget for 2018/19 we have methodically examined the areas listed below in our Efficiency Plan

Efficiency Plan

In order to secure the 4 year settlement referred to above, the council were required to produce an Efficiency Plan, which was submitted to the government in October 2016.

The latest budget forecast at that time was supplied as part of the Efficiency Plan, and identified a potential budget gap for 2017/18, 2018/19 and 2019/20. It was highlighted that the Council's plan to meet this funding shortfall is:

- **Encouraging growth in our tax base:** The Council has an adopted local plan which assumes an additional 5,600 houses over the 20 year plan period 2008-2028. At the present time planning permission has been granted for over 4,000 properties and whilst construction has been somewhat slow to date we are starting to see more building work taking place. Our current forecast assumes a steady 1% in our council tax base. However we are confident this will be exceeded. The benefit of this growth should also be reflected in our future New Homes Bonus allocations.
- **Encouraging business expansion and enterprise in our area:** The Council has worked hard over the last few years to develop Ribble Valley as a tourism destination. This has paid dividends with steady business rate growth which we have been able to utilise to fund our base budget. The Council is also working with a number of developers to bring forward enterprising schemes, including the Lancashire Enterprise Zone, during our plan period. We anticipate that business rate growth will significantly be in excess of the amount relied upon currently to fund our base budget, subject to any major changes in the current Business Rate Retention scheme.

- **Continuing to deliver cost effective and efficient services:** The Council has a strong record of delivering cost effective and efficient services. We have a culture of low spending, prudent financial management and yet have a reputation for providing good services at the same time as having a very high council tax collection rate and low band d council tax. We have a history of making budget savings year on year and we anticipate this to continue.
- **Reviewing the major sources of income available to the Council:** The Council recognises that the Government intend that local authorities become more self-sufficient and less reliant on core Government funding. We welcome this and are confident that our approach to growing the tax base and local economy in the Ribble Valley will result in higher business rate growth and New Homes Bonus funding.

We were notified in November 2016 that we were formally on the multi-year settlement and could expect to receive the allocations published as part of the 2016/17 local government finance settlement in 2017/18, 2018/19 and 2019/20.

We will continue to follow these above four principles in addressing any budget gap and this is reflected in the focus of the work that has been undertaken by the budget working group.

Budget Working Group

The Budget Working Group has met frequently throughout the last year to consider the Council's financial position.

Meetings have inevitably focussed on our business rate income, new homes bonus and council tax income as these are now our key income streams and will be in the future. In addition the Budget Working Group has considered the impact of the loss of our cost sharing income and how this might be met.

The Budget Working Group considered a number of key considerations as a recommended approach to addressing the budget shortfall.

Beyond 2019/20

As referred to in a number of the following sections there is a great deal of uncertainty around our funding beyond 2019/20 and much of this relies on the outcome of consultations.

The key areas of concern are in respect of:

- 75% Business Rates Retention
- Fair Funding Review
- Potential Future New Homes Bonus Changes

Our Efficiency Plan: Growth in our Taxbase

Calculation of the Taxbase

The council tax base is set each year between 1 December and 31 January and is an important calculation which sets out the number of dwellings to which council tax is chargeable in an area or part of an area.

To calculate the tax base for an area, the number of dwellings in each council tax band is adjusted to take account of any discounts, premiums or exemptions. The resulting figure for each band is then multiplied by its proportion relative to Band D (from 6/9 for Band A to 18/9 for Band H) and the total across all eight bands is calculated. These are then multiplied by the authority's estimated collection rate for the year.

The tax base is used for the purposes of calculating the band d council tax for the billing authority and also major precepting authorities and parish councils.

The Local Government Finance Act 2012 allowed changes to the discounts on council tax for second homes and empty properties. From 1 April 2013, second homes may be charged 100% of their normal rate of council tax, instead of the previous maximum of 90%.

"Unoccupied and substantially unfurnished" properties are subject to a discount of anything between 0% and 100% of their council tax, at the discretion of the billing authority. Properties undergoing "major repair work" or "structural alteration", which are vacant, can be subject to a discount of any amount between 0% and 100%, for a maximum of 12 months.

The full 50% discount must be retained on a second home where the liable person is required as part of his/her employment to live in job-related accommodation.

From 1 April 2013, local authorities can also set an 'empty homes premium' for long-term empty properties. Properties which have been unoccupied and substantially unfurnished for over two years may be charged up to 150% of the normal liability.

In 2013/14, i.e. the first year of the new changes, the Council agreed to leave the rates of our current discounts/exemptions unchanged.

From 2014/15 however the Council, after detailed consideration, implemented the following change:

- For long term empty properties (empty from 6 months up to 2 years) remove the current 50% discount i.e. owners are liable for the full 100% council tax due

There are no changes to our discounts for 2018/19.

Table 23 – Calculation of Taxbase for 2018/19

	Band @	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	Total
Total Dwellings on the Valuation List		3,700	5,098	5,078	4,614	3,590	2,231	1,907	215	26,433
Number of Dwellings Equivalents after Discounts and Exemptions	8.6	2,430.7	4,012.1	4,301.6	4,078.2	3,300.2	2,089.0	1,787.4	194.7	22,202.5
Ratio Band D	5/9	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Total Number of Band D Equivalents	4.8	1,620.5	3,120.5	3,823.6	4,078.2	4,033.6	3,017.4	2,979.0	389.4	23,067.0
									Adjustment for Non-Collection	-165.0
									Council Taxbase 2018/19	22,902.0

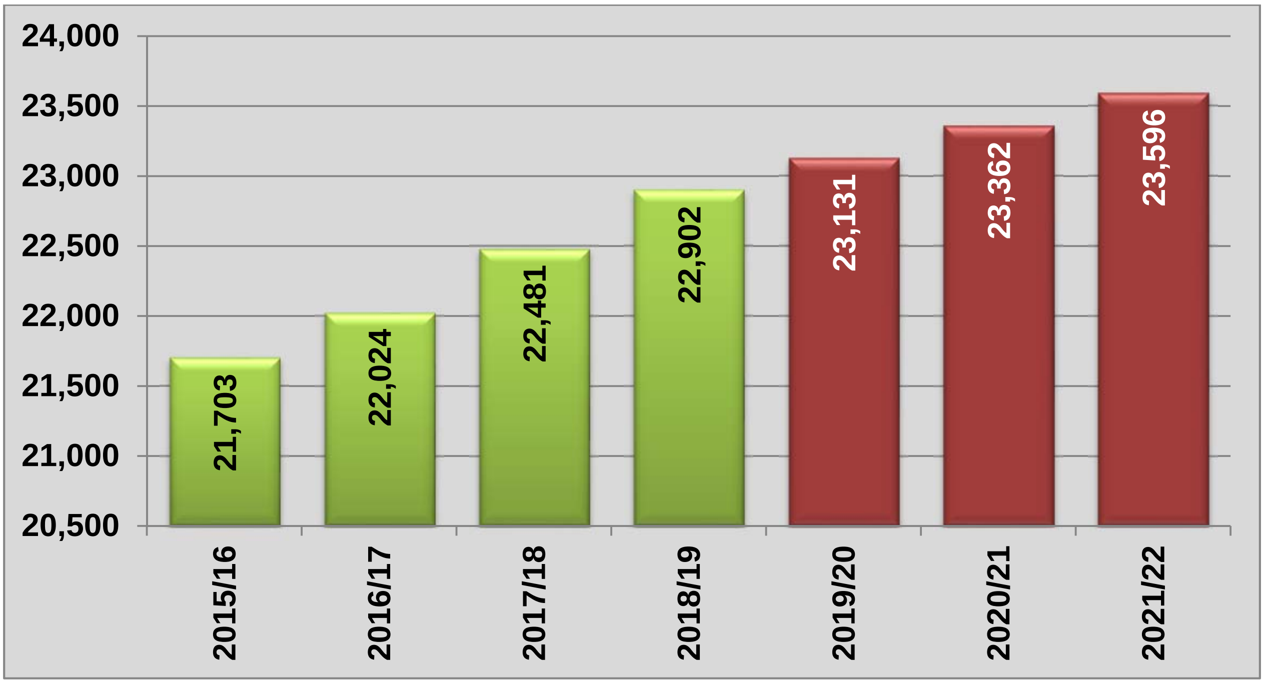
Movement to Date

The level of the council taxbase impacts on the level of resources that the council can raise from council tax. Equated from the number of Band D equivalent properties there are in the borough, there is the added impact of property banding appeals and also the various discounts that are awarded, on its calculation.

Four Year Finance Settlement: Growth in our Taxbase

For budget purposes the council taxbase is calculated at a snapshot point in October (subject to review) and all precepting bodies are informed of the taxbase in order to assist them in setting their precepts.

Table 24 – Movement in Council Taxbase



Columns in Green are Actuals and Columns in Red are Estimates

Influencing Factors

As can be seen in the earlier table, the award of discounts and premiums has a direct impact on the level of our taxbase. As a result it is important that we continue our regular reviews to ensure that such discounts and premiums are correctly applied and properly reflect the circumstances of the bill payer.

Past levels of planning applications have slowly started to see an impact on our taxbase, with a steady increase as houses are gradually occupied. Our taxbase for 2018/19 was ahead of our forecast of 1.5% growth and we continue to take a slightly cautious forecast in the level of future growth over the life of this strategy as we have no influence over when such developments are started, completed or occupied.

Looking at the 2018/19 taxbase in comparison to the 2017/18 taxbase, the largest increases to the count of Band D equivalents on the taxbase were seen in:

1. Clitheroe: Increased from 5,097 to 5,225 (128)
2. Whalley: Increased from 1,543 to 1,627 (84)
3. Longridge: Increased from 2,719 to 2,772 (53)
4. Billington and Langho: Increased from 2,072 to 2,124 (52)
5. Barrow: Increased from 402 to 449 (47)

It is likely to be these same top 5 areas that will see the largest level of Band D equivalent taxbase growth in 2018/19 based on past planning applications and current building activity.

In respect of the size of the percentage increases in the various parishes, the follow saw the largest percentage increases:

1. Barrow: Increased from 402 to 449 (11.69%)
2. Gisburn: Increased from 197 to 211 (7.11%)
3. Whalley: Increased from 1,543 to 1,627 (5.44%)
4. Wiswell: Increased from 177 to 183 (3.39%)
5. Clitheroe: Increased from 5,097 to 5,225 (2.51%)

Impact on Council Tax

The council taxbase has seen a healthy increase over recent years, and the budget forecast has been produced on the assumption of a 1% increase per annum.

The table below indicates the level of additional funding that may be realised should our taxbase be above the percentage increases used in the budget forecast.

Table 25 – Impact of Increased Taxbase on Forecast Precept

	2018/19 Forecast £	2019/20 Forecast £	2020/21 Forecast £	2021/22 Forecast £
Taxbase used in Forecast	22,902	23,131	23,362	23,596
Band D Council Tax in Forecast	£150.69	£155.69	£160.69	£165.69
Resulting Council Tax Precept in Forecast	**3,451,102**	**3,601,265**	**3,754,040**	**3,909,621**
Taxbase if additional 1% Growth to the Taxbase shown above		23,362	23,596	23,832
Additional Band D Equivalent Properties		231	234	236
Band D Council Tax in Forecast		£155.69	£160.69	£165.69
Resulting Additional Council Tax Precept Income		**£36,013**	**£37,540**	**£39,096**

Whilst we can see growth to our taxbase through the occupation of newly built houses, or empty properties being reoccupied, the award of discounts has a downward impact on our taxbase.

Our taxbase for 2018/19 was reduced by just over 3,700 Band D equivalent properties due to the award of various discounts and exemptions. This equates to an almost 14% reduction to the taxbase, the majority of which we have no influence over.

Therefore, the 1% impact shown in the above table for growth can conversely be used as an indicator of the negative impact on our taxbase of more discounts and exemptions being awarded.

Impact on New Homes Bonus

New Homes Bonus is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.

Therefore, each new property attracts the equivalent amount of the national average council tax as grant for the council. This is split 80% to ourselves and 20% to Lancashire County Council. From 2017/18 there is also an adjustment of 0.4% on the baseline.

Assuming that the baseline has already been exceeded, the table below shows the additional New Homes Bonus grant income that may be achieved from a 1% increase in the taxbase.

It must be highlighted that this if for indicative purposes and assumes 1% growth in Band D equivalents – not property count. The 2018/19 national average Band D council tax rate has been used in all years below, being the latest information available. In future years the national average will likely be higher than that shown.

Table 26 – Impact of Increased Taxbase on New Homes Bonus

	2018/19 Forecast £	2019/20 Forecast £	2020/21 Forecast £	2021/22 Forecast £
Additional Band D Equivalent Properties		231	234	236
National Average Band D Council Tax *2018/19 rate used for illustrative purposes*		£1,591	£1,591	£1,591
Resulting Additional Total New Homes Bonus Grant		**£368,014**	**£371,689**	**£375,412**
80% Share Ribble Valley Borough Council		£294,411	£297,351	£300,330
20% Share Lancashire County Council		£73,603	£74,338	£75,082

Any grant not used in year to support the revenue budget is set aside in an earmarked reserve and in the past has generally been used to support the capital programme.

The local government grant settlement confirmed that New Homes Bonus grant will continue to be shared 80:20 between district and county councils in two tier areas. Our total allocation for 2018/19 will be £1,573,388 compared with £1,576,990 for the 2017/18 financial year.

Four Year Finance Settlement: Growth in our Taxbase

As a result we will be using an extra £311,921 to support the revenue budget taking our total annual New Homes Bonus use to fund the revenue budget to £1.105m. The table below shows our past use and future plans.

Table 27 – Past and Planned Use of New Homes Bonus

Received	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Award Year											
2011/12	62,046	62,046	62,046	62,046	62,046	62,046					
2012/13		117,599	117,599	117,599	117,599	117,599					
2013/14			188,053	188,053	188,053	188,053	188,053				
2014/15				227,108	227,108	227,108	227,108				
2015/16					373,810	373,810	373,810	373,810			
2016/17						398,268	398,268	398,268	398,268		
2017/18							389,751	389,751	389,751	389,751	
2018/19								411,559	411,559	411,559	411,559
2019/20									?	?	?
2020/21										?	?
2021/22											?
2022/23											
TOTAL	**62,046**	**179,645**	**367,698**	**594,806**	**968,616**	**1,366,884**	**1,576,990**	**1,573,388**	**1,199,578**	**801,310**	**411,559**
Allocated											
Revenue Base	60,000	60,000	60,000	333,780	676,065	786,961	793,079	1,105,000	1,105,000	1,105,000	1,105,000
Revenue Ad-hoc						6,000					
Capital	0	0	100,000	85,000	35,662	57,748	189,060	209,000	313,600	272,000	272,000
TOTAL	**60,000**	**60,000**	**160,000**	**418,780**	**711,727**	**850,709**	**982,139**	**1,314,000**	**1,418,600**	**1,377,000**	**1,377,000**
Adjustment			-10,029	10,029							
Unallocated	2,046	119,645	217,727	165,997	256,889	516,175	594,851	259,388	-219,022	-575,690	-965,441
Bal C/fwd	**2,046**	**121,691**	**339,418**	**505,415**	**762,304**	**1,278,479**	**1,873,330**	**2,132,718**	**1,913,696**	**1,338,006**	**372,565**

Our Efficiency Plan: Business Expansion and Enterprise

Calculation of Retained Business Rates

Following completion of the Governments NNDR1 return, it is anticipated that our share of business rates for 2018/19 will be as shown below.

Part of this calculation involves initially establishing what we will keep as part of the retained levy under pooling.

Table 28 – Retained Levy Calculation for 2018/19

	Calculation as at January 2018 as per NNDR1 Return £
Total Billing Authority NNDR Income	14,622,354
Our share of NNDR income (40%)	5,848,942
Our share of Small Business Rate Relief	600,547
Our share of discretionary reliefs	55,336
Pre levy income	**6,504,825**
Less Tariff	-4,147,262
Retained Rates Income	**2,357,563**
Less Our Baseline Funding Level	-1,302,823
Resulting Retained Rates Income above Baseline	**1,054,740**
Resulting Levy Payable to the Government at 50% ***(if not a business rate pool member)***	527,370
Therefore Our Retained Levy Under Pooling ***(90% of the above figure)***	**474,633**
Therefore Retained Levy Under Pooling Payable to LCC ***(10% of the above figure)***	**52,737**

Having established the retained levy for this council under the pooling arrangements we can then look at the overall calculation of the business rates that we keep.

Table 29 – Business Rates Retained Income Calculation for 2018/19

	Calculation as at January 2018 as per NNDR1 Return £
Total Billing Authority NNDR Income	14,622,354
Our share of NNDR income (40%)	5,848,942
Less Tariff	-4,147,262
	1,701,680
Less Our Baseline Funding Level	-1,302,823
Our Retained Rates Income before the Retained Levy	**398,857**
Less Our Share of Retained Levy	-474,633
Less LCC Share of Retained Levy	-52,737
Add the Section 31 Grants that we Receive	930,916
Add 100% Retained Rates from Renewable Energy	81,921
Resulting Retained Rates Income above Baseline	**884,324**
Our Share of the Deficit on the Collection Fund for Business Rates	-25,165
Total Business Rate Income to General Fund Excluding the Retained Levy	**859,159**
Add Back Our Share of the Retained Levy	**474,633**
Total Business Rate Income for 2018/19	**1,333,792**

We have obviously had to make assumptions about the potential of successful appeals, bad debts and also growth in our business rates base.

As a member of the Lancashire Business Rate Pool you can see from the table above we will benefit from retaining the levy of £474,633.

Past Use of Business Rates Growth

We estimate that the total income for next year from business rates will be £1,333,792 as shown in the previous table. The table below show details of our past growth and the use of that growth to date.

Table 30 – Summary of Business Rate Growth Received and Used Each Year

	2013/14 Actual £	2014/15 Actual £	2015/16 Actual £	2016/17 Actual £	2017/18 Revised Estimate £	Average £
Business Rate Growth	263,276	364,973	612,969	37,224	690,750	**393,838**
Retained Levy	0	0	0	338,517	488,767	**413,642**
Total Growth and Retained Levy	**263,276**	**364,973**	**612,969**	**375,741**	**1,179,517**	**807,480**
Amount Used to Support Revenue Budget	-47,165	-262,926	-262,926	-262,926	-275,514	
Transferred to General Fund Balances	-139,311	0	0	0	0	
Surplus/deficit for year	**76,800**	**102,047**	**350,043**	**112,815**	**904,003**	
Impact on Business Rate Volatility Earmarked Reserve						
Opening Balance b/fwd	**135,904**	**212,704**	**314,751**	**664,794**	**777,609**	
Surplus/deficit for year	76,800	102,047	350,043	112,815	904,003	
Closing Balance c/fwd	**212,704**	**314,751**	**664,794**	**777,609**	**1,681,612**	

Due to the volatility and also the complexity of how the Business Rates Retention scheme works and further uncertainties surrounding issues such as appeals and growth estimates the figures shown above should be treated with caution.

Increasing Our Reliance on Business Rates Growth

You will see from the above table that the predicted balance on the volatility reserve at the end of this financial year will be £1.682m. This has now reached a level that is more than sufficient to provide our own safety net protection which we have had to for-go as a pool member at 92.5% of our business rates baseline. Therefore we are now in a position to use our business rate income in year to contribute more to fund both the revenue budget and capital programme.

Based on our anticipation that total business rates income will be £1,316,585 in 2018/19 we can safely rely on using more than the amount currently used to support the revenue budget of £275,514.

The council's Budget Working Group has carefully considered the level of business rates growth that is used to support the revenue budget from 2018/19 onwards.

The forecast shows that we will now use an extra £400k per annum on average to support the revenue budget. This is profiled as £200k extra in 2018/19, £400k extra in 2019/20, £600k extra in 2020/21 and £400k extra in 2021/22. This is all in addition to the existing £275,514 that is currently used to support the revenue budget.

Influencing Factors

There are limitations on our ability to directly influence the level of retained business rates income and associated growth, as this is impacted on by many external factors beyond our control – not least by Government policy.

Additionally, whilst there may be growth in the number of businesses in the area, there may not be a direct correlation with growth in business rates income due to the potential award of various reliefs and discounts.

Further impacts to the level of growth that we currently enjoy will come through the resetting of the business rates baseline in 2020/21 as part of the introduction of 75% business rates retention.

Within the business rates retention scheme, the determination of the business rates baseline could be considered to be the most important element in determining a council's ability to meet or exceed the resources amount allocated to it within the Settlement Funding Assessment. The Settlement Funding Assessment is the level of resources allocated to the council that is funded through the retained element of business rates and Revenue Support Grant.

The current business rates baseline has been in place since 2013/14 and is due to be updated through a reset process. Given that the intention of business rates retention is to reward councils in promoting economic growth (through retaining growth in business rates income), it is hoped that any reset does not remove this incentive.

Furthermore, the Fair Funding Review adds a further element of uncertainty to our strategy as under the current consultation the government is looking to reassess the way government grant is allocated out to councils.

The fair funding review will set new baseline funding allocations for local authorities through an up-to-date assessment of their relative needs and resources, using available evidence.

The Government is considering a wide range of options for developing an updated funding formula by looking again at the factors that drive costs for councils.

The current consultation focuses specifically on potential approaches that have been identified to measure the relative needs of councils.

In an attempt to influence business growth in the borough the council is looking at a number of initiatives

Business Rates Pool

As previously referred to, we benefit greatly from being part of the Lancashire Business Rates Pool, which began on 1 April 2016.

In a Business Rate Pool, tariffs, top-ups, levies and safety nets can be combined. This can result in a significantly lower levy rate or even a zero levy rate in the case of the Lancashire Business Rates Pool, meaning that more or all of the business rate growth can be retained within the pool area instead of being payable to the Government.

In 2018/19 we forecast that we will benefit from £474,633 in retained business rates levy.

With the impending introduction of 75% Business Rates Retention it is unlikely that the Lancashire Business Rates Pool with its current format and governance arrangements would be viable after 2019/20. However, there is continued uncertainty in this area.

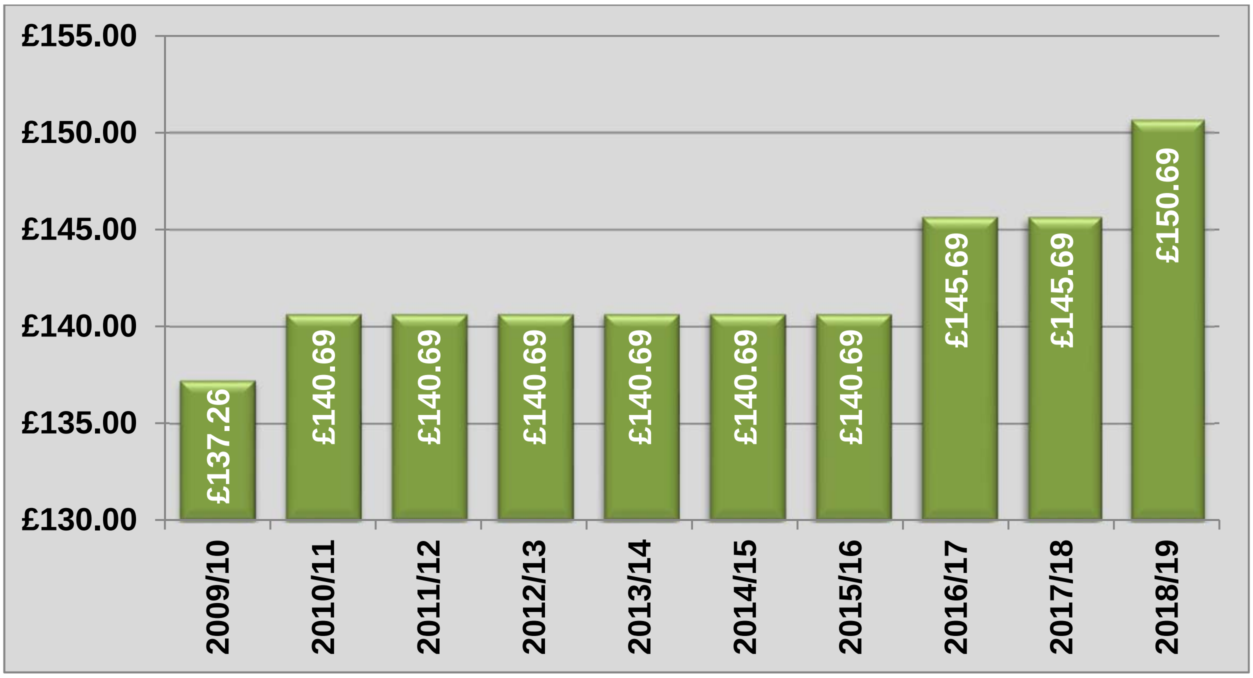
Our Efficiency Plan: Continue Delivering Cost Effective and Efficient Services

Council Tax Increases

In order to maximise its major sources of income the council has increased the council tax for the borough for 2018/19. Being in the bottom quartile for Band D council tax, members were able to increase the council tax up to a maximum of £5.

This is only the second time that our council tax has increased over the last nine that the borough has seen an increase in our share of the council tax.

Table 31 – Band D Council Tax from 2009/10 to 2018/19



The council's tax level remains by far the lowest in Lancashire and in the lowest quartile for all district councils nationally.

This increase has allowed us to absorb the balance of savings that have needed to be found as part of the budget setting process for 2018/19 and also is a further compounding factor on the level of savings needed in future years in the forecast.

The council has also been able to avoid any impact on the level of services provided and avoid additional new service specific charges, such as green waste charges that are seen at many other councils.

How we Compare

Using the latest available information available for a comparison exercise, the chart below provides a comparison using 2017/18 financial year data of a number of key items.

- Band D Council Tax for 2017/18
- Settlement Funding Assessment per head of population
- Council Tax requirement per head of population
- Net Revenue Expenditure per head of population
- This information for ourselves is compared below to the average of the Lancashire Districts and also the average of the CIPFA Family Group Nearest Neighbours

Table 32 – Band D Council Tax Comparison (2017/18)

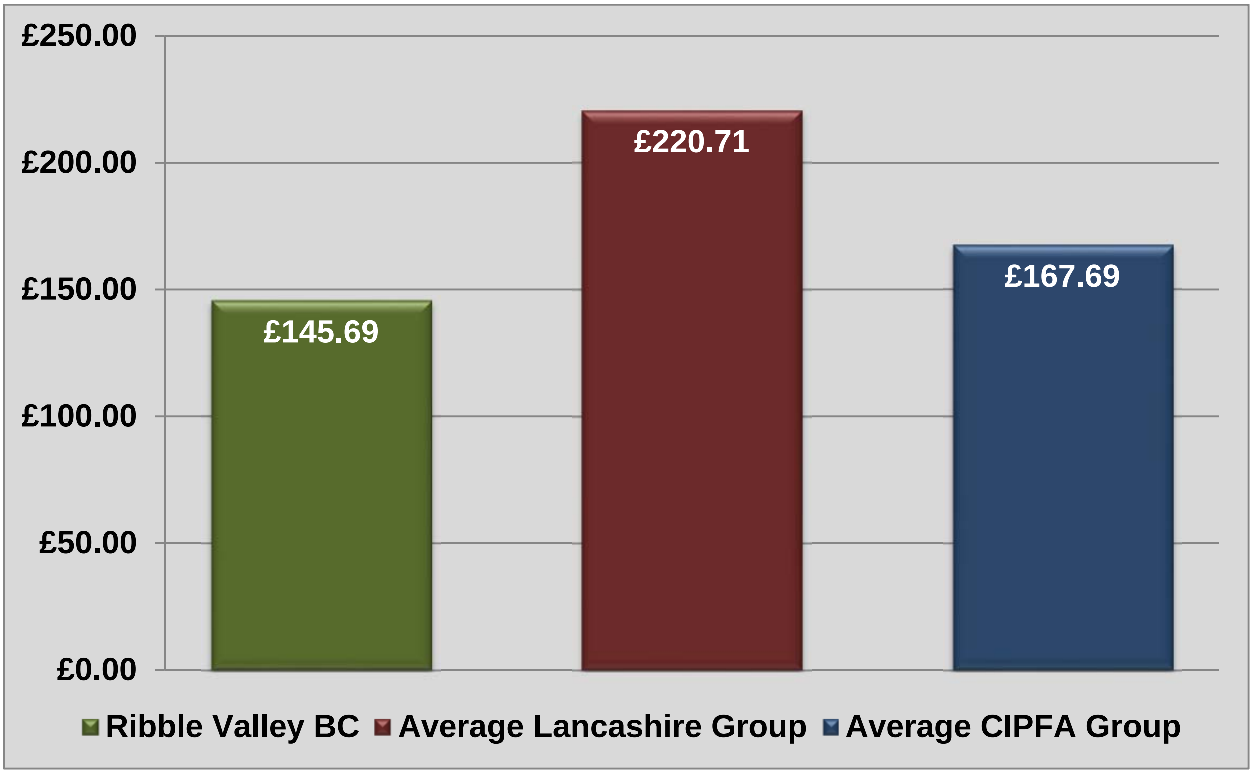


Table 33 – Settlement Funding Assessment per Head Comparison (2017/18)

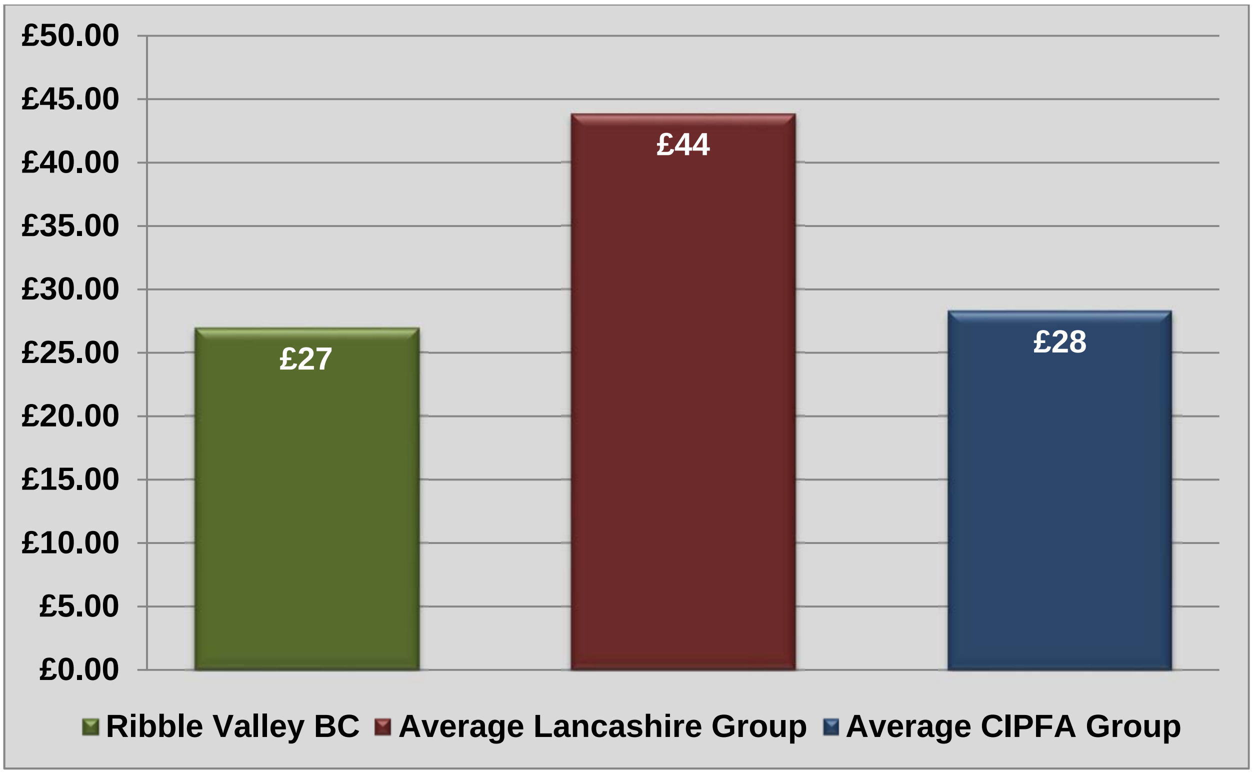


Table 34 – Council Tax Requirement per Head Comparison (2017/18)

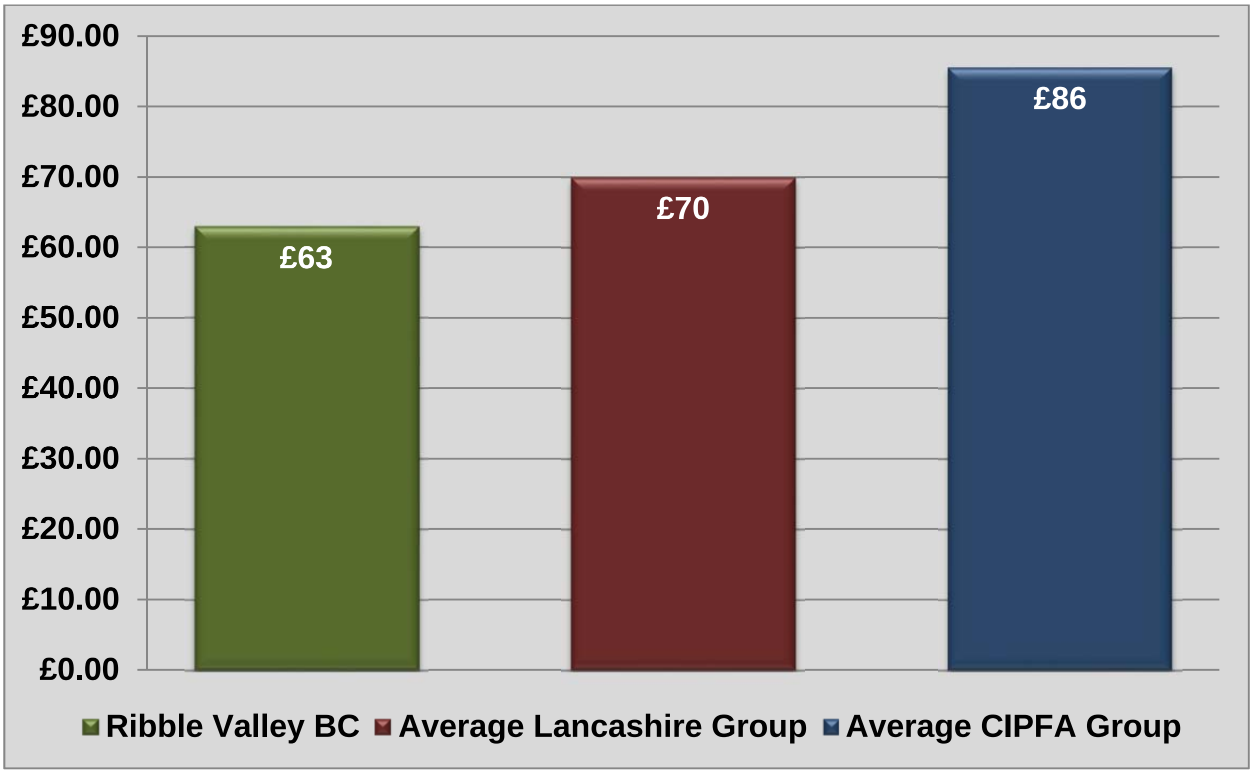
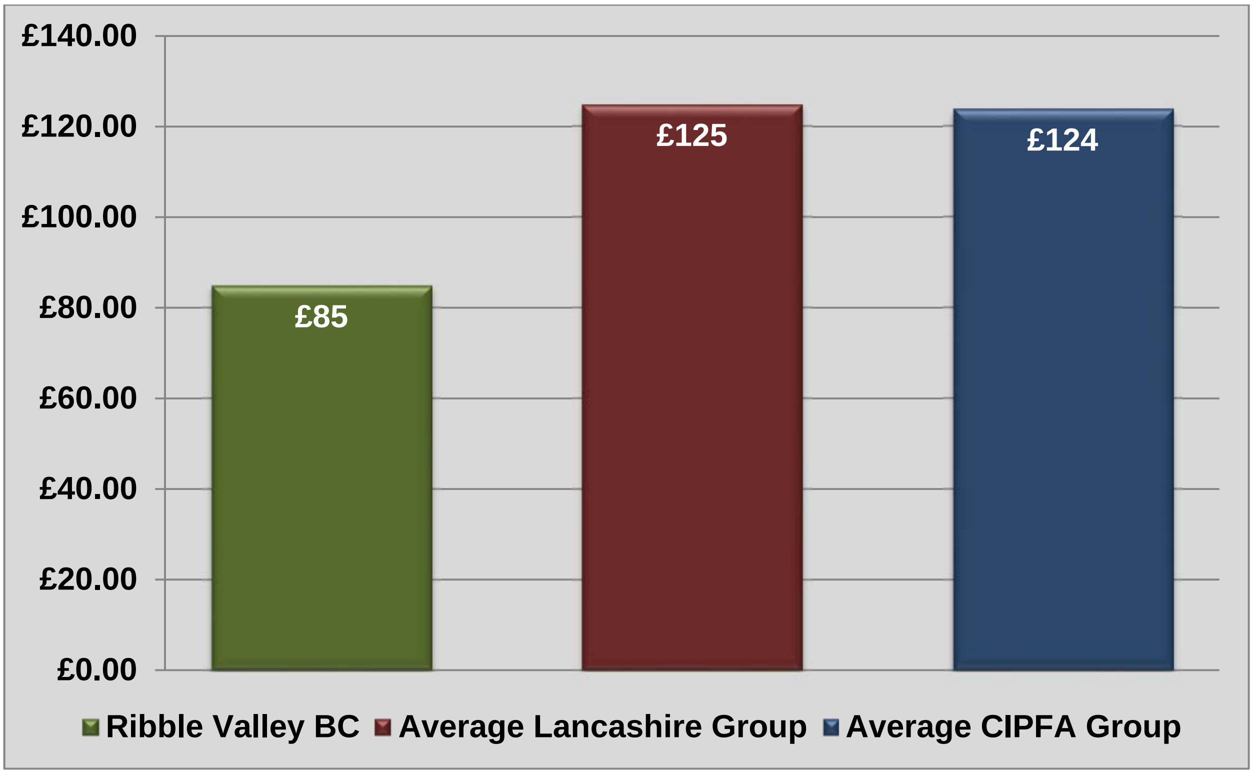


Table 35 – Net Revenue Expenditure per Head Comparison (2017/18)



Resident Satisfaction Surveys

THE SURVEY IS CURRENTLY LIVE AND IT IS HOPED THAT WE MAY BE ABLE TO INCLUDE DATA FROM THE SURVEY IN THIS SECTION OF THE MTFS FOR WHEN IT IS REPORTED TO POLICY AND FINANCE COMMITTEE FOR APPROVAL

Efficiency Plan: Review Major Sources of Income Available

Current Key Sources

As referenced in the sections Our Efficiency Plan: Growth in our Taxbase and Our Efficiency Plan: Business Expansion and Enterprise we are anticipating a substantial increase in:

- council tax
- new homes bonus
- business rates

In the earlier section of this strategy on Income, the main sources of other income through fees and charges lies in the areas of:

- Planning (Original Estimate 2018/19 £656k)
- Car Parking (Original Estimate 2018/19 £437k)
- Refuse Collection/Trade Waste (Original Estimate 2018/19 £398k)
- Ribblesdale Pool (Original Estimate 2018/19 £349k)
- Building Control (Original Estimate 2018/19 £191k)

Restrictions on Ability to Maximise

With regard to Council Tax the ability to maximise income is driven by the taxbase growth and the level of Band D council tax charge set – this being subject to government restrictions. Furthermore any local policies on discounts and premiums will also influence income levels through their impact on the taxbase.

New Homes is once more driven by the taxbase growth, but is also influenced by the government and any new restrictions around planning consent, changes to the base percentage or further tapering in the number of years payable.

Even in the area of business rates there is uncertainty around the impact of the resetting of the business rate baseline as a result of the introduction of 75% business rates retention on business rates growth beyond 2019/20 and any further redesign around the scheme. Much of this may depend on the outcome of the pilots currently in operation and consultations.

Looking to our other key income sources from fees and charges, there are restrictions on some increases to income. In a number of areas there is the inability to attract additional income as the government have indicated that they should be provided at cost only.

On 21 February 2017 the Government wrote to all planning authorities with an offer to increase planning fees by 20% with the proviso that the increased income raised should be invested in their planning departments. We accepted the Government's offer and have been charging the increased fee since 17 January 2018. This additional income has been used to finance the new Director of Economic Development and Planning post.

Certain other fees and charges can largely be increased without restriction, but may encounter issues around capacity if volume is increased (which may also attract extra costs) or there may be adverse impacts on usage should unit price of our fees and charges increase. Increasingly competition is also an issue in many areas more traditionally provided only by local authorities in the past.

Future Opportunities

It had been hoped that the refurbishment of the Ribblesdale Pool would help us to see an increase in usage and income levels. Whilst these haven't materialised to date it is hoped that through future promotion of the facility this may prompt an increase in usage.

In 2018/19 we are to see the loss of income due to cost sharing ceasing. This has resulted in a loss of income of £431,900 partially offset by the proceeds from the sale of paper estimated at £47,600 which we have assumed will be retained by the Council. The net loss of income therefore is £384,300.

There has been substantial consideration of options available to the council and its residents as a result of the withdrawal of this funding. These have included:

- Charging for green waste collection;
- Options for dealing with mixed paper and cardboard;
- Changes to refuse and recycling collection frequency;
- Alternative arrangements for the recycling of our recyclable/compostable waste streams; and
- Mothballing of the waste transfer station.

Out of the above, charging for green waste has been an area of serious consideration. At this stage the council is minded not to bring in charges for green waste due to other budget funding options that may potentially be available for the medium term, however this position may be reviewed. It is estimated that on a take up of 50% at £30 per bin (8,140 properties) it is possible that we may potentially be able to raise £244,200 per annum from green waste fees. This excludes any costs around gate fees; however, no councils are currently being charged gate fees for such waste.

Looking at Others

There are a variety of areas that other local authorities are looking at to maximise the level of income that they have to work with. It is important to note that not all opportunities are suitable to all local situations but are areas that may be worth further consideration over the coming years. Examples are:

- Increasing fees around car parking, leisure or waste
- Allowing and charging for advertising on council vehicles and premises
- Developing affordable homes
- Office sharing with other organisations (such as we have already done with the Job Centre).
- Charging for Green Waste (as previously referred to)
- Alternative vehicle fleet provision
- Energy generation (i.e. solar or wind)

Latest Forecast Revenue Position

A Balanced and Robust Budget

Local authorities are required by law to have a balanced budget. Whilst what is meant by ‘balanced’ is not defined in law Legislation provides a description to illustrate when a budget is considered not to balance, which is:

- where the increased uncertainty leads to budget overspends of a level which reduces reserves to unacceptably low levels, or
- where an authority demonstrates the characteristics of an insolvent organisation, such as an inability to pay creditors.

Any significant alteration in either expenditure or income may result in an unbalanced budget. Factors affecting a budget could include:

- sudden policy change
- demographic pressures
- unexpected funding pressures
- failure to realise planned savings
- natural disaster

A prudent definition of a sustainable balanced budget for local government would be a financial plan based on sound assumptions which shows how income will equal spend over the short and medium term. Plans would take into account deliverable cost savings, income growth and useable reserves.

There is a legal requirement under Section 25 of the Local Government Act 2003 for the Council’s Section 151 officer to report on the robustness of the budget and the adequacy of the Council’s balances and reserves.

As part of giving this assurance the Director of Resources, as the council’s Section 151 Officer gives details of the processes that the council follows in order to ensure the Council sets a robust budget;

- Accountancy staff carry out monthly budget monitoring in conjunction with budget holders and regularly report the outcomes to Corporate Management Team
- Service Committees also receive regular budget monitoring reports
- Heads of Service are given responsibility for managing their budgets
- We prepare our financial plans using a base budget concept whereby any increases/reductions in the level of services are considered over and above the base budget and approval must be sought/virements requested
- We have a Budget Working Group consisting of members and the Council's Corporate Management Team which meets on a regular basis to make recommendations to officers and service committees in order to maintain a high level of control over our financial position and ensure we manage our finances strategically and effectively.
- We prepare three year budget forecasts and also this Medium Term Financial Strategy which considers our budget pressures in the medium to longer term

Section 114 Report

Section 151 of the Local Government Act 1972 specifies that:

- Every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.
- That officer is commonly known as the chief financial officer (CFO) or section 151 officer – at this council this responsibility falls to the Director of Resources.

The section 114 powers of the chief finance officer (CFO) under the Local Government Finance Act 1988 require the CFO, in consultation with the council's monitoring officer, to report to all the authority's members if there is, or is likely to be, an unbalanced budget.

In practice, this is most likely to be required in a situation in which reserves have become depleted and it is forecast that the council will not have the resources to meet its expenditure in a particular financial year.

If a Section 114 report were to be issued then a full council meeting must then take place within 21 days to consider the notice. In the meantime, no new agreements involving spending can be entered into.

The external auditor also has a duty to “make a report in the public interest” if necessary (Schedule 7 of the Local Audit and Accountability Act 2014), and the report must be considered by Full Council.

Table 36 – The Latest Forecast (6 February 2018)

	2018/19 Forecast £	2019/20 Forecast £	2020/21 Forecast £	2021/22 Forecast £
Net Expenditure	**6,849,110**	**7,090,392**	**7,369,581**	**7,552,172**
Interest Receipts	-20,000	-25,000	-30,000	-30,000
Use of Superannuation Reserve	-36,512	-36,512	-36,512	-36,512
Rural Services Grant	-107,921	-86,603	-86,603	-86,603
Use of Business Rates Growth	-475,514	-675,514	-875,514	-675,514
Use of New Homes Bonus	-1,105,000	-1,105,000	-1,105,000	-1,105,000
(Use of)/Contribution to Balances	-170,737	-250,000	-250,000	-250,000
Savings Required	**0**	**-62,642**	**-98,506**	**-298,409**
Budget Requirement	**4,933,426**	**4,849,121**	**4,887,446**	**5,070,134**
Core Government Funding				
Revenue Support Grant	-109,149	108,866	250,000	250,000
Transition Grant	0	0	0	0
Business Rates Baseline	-1,302,823	-1,331,719	-1,358,353	-1,385,520
Collection Fund Deficit/(Surplus)	-70,351	-25,000	-25,000	-25,000
Precept	**3,451,103**	**3,601,268**	**3,754,093**	**3,909,614**
Based on Taxbase:	22,902	23,131	23,362	23,596
Band D Council Tax	**£150.69**	**£155.69**	**£160.69**	**£165.69**
Based on Projected Council Tax increase:	£5 max	£5 max	£5 max	£5 max

Key Assumptions

The above budget forecast was based on a number of assumptions as shown below:

- A key impact on our future budget will be the outcome of the Fair Funding Review and the changes arising from the move to the 75% Business Rate Retention system in 2020/21.
- With regards to New Homes Bonus, we plan to use an extra £312,000 for each of the three years 2018/19, 2019/20 and 2020/21. For the 2021/22 financial year the forecast it has been assumed that we will rely on the same level.
- With regards to Business Rates, the Budget Working Group recommended using an extra £400,000 for each of the three years 2018/19, 2019/20 and 2020/21. However it was recognised that this amount needed to be profiled over the period as follows; 18/19 an extra £200k, 19/20 an extra £400k and 20/21 an extra £600k, taking the average amount used to fund the revenue budget to £676k. For the 2021/22 financial year it has been forecast that we will rely on the average level of £676k.
- With regard to council tax levels the forecast has been prepared on the basis of including the maximum allowed increase each year. This would ultimately be a decision for members at the time of setting the budget each year. It is worth noting that the Government have indicated, in the council's Spending Power figures, that we will be able to increase our council tax by £5 each year (if we remain in the bottom quartile) for the next four years.
- The taxbase has been forecast to increase by 1% per annum.
- As previously referred to the pay award has yet to be finalised for 2018/19, and estimates are based on 2%, with a £75,000 contingency allowed. For 2019/20 the pay increase has been assumed at 3%, and for 2020/21 onwards at 2% per annum
- General Inflation has been allowed for in line with the Bank of England target of 2% over the forecast period.
- Investment interest assumes a gradual increase in rates from 0.25% up to 2020/21.

- Assumption that any further growth will be met by corresponding savings, in line with past policy
- Use of General Fund Balances set at £250K from 2019/20 onwards (£170k in 2018/19)
- Council Tax surplus assumed each year of £25K

Savings Required

As can be seen in the forecast above, there are further savings required in order to ensure that the budget is balance for the years 2019/20 to 2021/22.

It is planned that these future savings will be addressed as part of the work of the Budget Working Group and that we will look to the four themes of our Efficiency Plan to find these savings.

- Encouraging growth in our taxbase
- Encouraging business expansion and enterprise in our area
- Continuing to deliver cost effective and efficient services
- Reviewing the major sources of income available to the Council

Forecast Balances and Reserves

Looking at our Earmarked Reserves and our General balances, the table below shows a summary of how the above revenue budget, and the capital programme (shown in the next section) will impact on our general fund balances and earmarked reserves.

The greatest impact on our earmarked reserves now comes from the capital programme as our earmarked reserves are now the main source of resources.

Table 37 – Summary of Earmarked Reserves Balances

Purpose	Forecast Balance as at 31 March 2019 £	Forecast Balance as at 31 March 2020 £	Forecast Balance as at 31 March 2021 £	Forecast Balance as at 31 March 2022 £
Shorter Term Service Commitments	120,095	110,175	100,255	90,335
Reserves to smooth the revenue impact of longer term cyclical costs	128,029	90,345	75,896	137,895
Trading or business unit reserves	-17,302	-4,042	9,218	22,478
Sums set aside for major schemes such as capital projects	719,682	663,192	659,222	655,252
Longer term strategic or corporate reserves	6,909,751	6,980,713	6,954,035	7,056,011
External grant funding where expenditure has yet to be incurred	538,637	484,082	480,545	480,545
	8,398,892	**8,324,465**	**8,279,171**	**8,442,516**

Table 38 – General Fund Balances

	2018/19 £	2019/20 £	2020/21 £	2021/22 £
Forecast Balance Brought Forward 1 April	**-2,433,679**	**-2,262,941**	**-2,012,941**	**-1,762,941**
Forecast to be Used in Year	170,738	250,000	250,000	250,000
Forecast Closing Balance 31 March	**-2,262,941**	**-2,012,941**	**-1,762,941**	**-1,512,941**

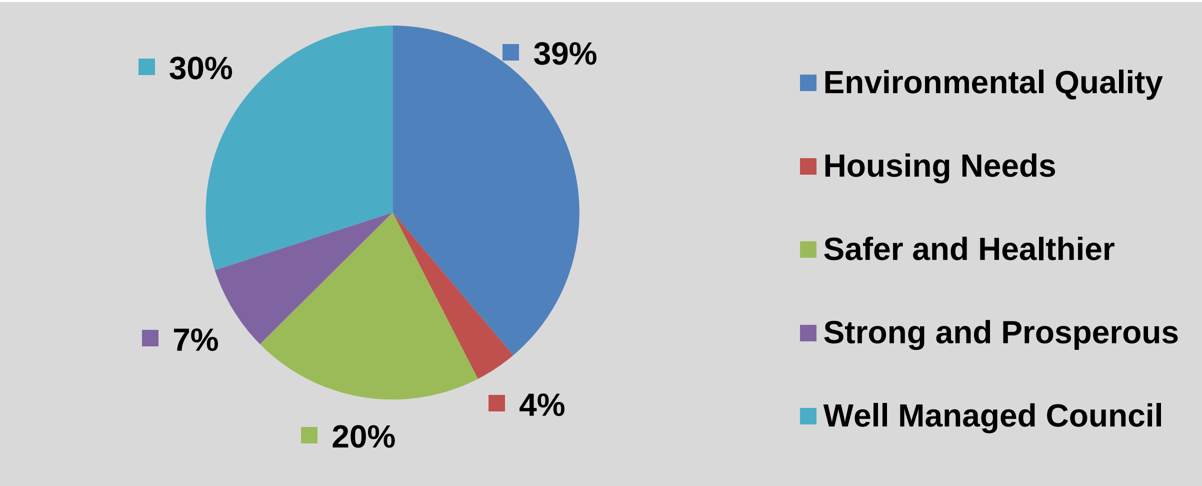
Our Priorities

Our revenue spend in the table above can be matched against the council's priorities.

Priority 1	Priority 2	Priority 3	Priority 4	Priority 5
To ensure a well-managed council providing efficient services based on identified customer needs.	To sustain a strong and prosperous Ribble Valley.	To help make people's lives safer and healthier.	To protect and enhance the existing environmental quality of our area	To match the supply of homes in our area with the identified housing needs

The Net Committee Expenditure for the 2018/19 revenue budget is shown in the table below.

Table 39 – Revenue Budget 2018/19 by Council Priority



Risk and Sensitivity

There are a number of risks with the medium term financial strategy as fluctuations in some of the underlying assumptions can produce significant changes to the forecast.

The table below shows some of the areas of sensitivity and the potential impact on the strategy, based on the original estimate for 2018/19.

Table 40 – Sensitivity Analysis

Area of Sensitivity	Percentage Fluctuation	Annual Impact on Budget
Pay Award (Impact on Direct Employee Costs)	1.00%	£64,160
Energy Costs	5.00%	£7,770
Vehicle Fuel	5.00%	£11,820
Short Term Investment Interest Rates	0.25%	£26,500
Customer and Client Receipts	1.00%	£31,330
Service Specific Government Grants	1.00%	£66,360
Other Grants and Contributions	1.00%	£9,600
Settlement Funding Assessment	1.00%	£14,120
New Homes Bonus (Received in Year)	1.00%	£15,734
Retained Business Rates Income (incl. Retained Levy)	1.00%	£13,338

In terms of impact on the council tax, each budget adjustment of +/-£100,000 – if fully funded from Council Tax - would have the effect of changing council tax at Band D equivalent by +/-£4.37 or a further +/-2.9% (based on an assumed Band D council tax charge of £150.69 for 2018/19).

On the other hand, for every 1% increase in the level of 2018/19 council tax charge, an additional £34,510 council tax revenue would be raised and therefore, for every 1% decrease in the level of council tax revenue £32,750 savings would need to be identified or alternative funding such as use of balances would need to be found (based on an assumed Band D council tax charge of £150.69 for 2018/19).

In terms of the Settlement Funding Assessment that is to be received for 2017/18, this will support approximately 29% of the council's budget requirement and so any variation has a major impact. A variation of 1% in this funding would amount to £14,120.

The table below provides a summary of the main financial risks facing the council, and their potential impact and our mitigating actions.

Table 41 – Key Areas of Identified Risk

Risk	Risk Level	Mitigation
Past savings that have been identified by Heads of Service do not continue to be achieved	Medium	Regular monitoring of budgets and meetings with Heads of Service where savings have been identified in order to enable early corrective action if required.
A financial institution that has been invested in is unable to repay the principal sum to the council	Medium	This risk is managed through the Treasury Management Strategy. The markets are regularly monitored and discussions held with the Director of Resources, Head of Financial Services and Senior Accountant daily.
Identified savings required are not achieved	Medium	Through stringent budget monitoring and sound working practices in the review of savings needed and through the work of the Budget Working Group the required savings/funding will be found and will also be met in year.

Risk	Risk Level	Mitigation
Expenditure is not contained within the approved budgets	Low	The council has a well-developed budget monitoring process which enables early identification of variances and allows corrective action to be taken.
Business Rates Growth Retention	High	There is a high level of uncertainty around the future level of business rates growth, or downturn. With our membership of the Lancashire Business Rates Pool, we continue to maintain a Business Rate Volatility earmarked reserve in order to cushion future fluctuations.
Further Reductions to New Homes Bonus receipts in future years	High	A substantial reduction in our New Homes Bonus funding, further to that which has already been announced, would have a major impact on the council, particularly due to its reliance on this valuable funding stream, which was previously 'top sliced' from core government funding.

Risk and Sensitivity

Risk	Risk Level	Mitigation
The fair funding review will set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best available evidence. There is a risk that this council may be adversely affected.	High	Ensure the council’s input to the consultation document and support the Rural Services Network in their work.
Pay Awards, fee increases and price inflation higher than assumed	Medium	The impact of any such increases would likely be absorbed by the use of the Council’s General Fund balances, or the identification of compensating savings.

Financial Management Arrangements

The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government and this is reviewed on an annual basis.

The Council has designated the Director of Resources as Chief Finance Officer under Section 151 of the Local Government Act 1972.

The management structure of the Council ensures that the Chief Financial Officer reports directly to the Chief Executive and is a member of the leadership team with direct responsibility for the Council's financial activities. The leadership team meets on a weekly basis to discuss matters of strategic and operational importance to the Council.

Some of the key elements of our financials management arrangements that we have in place are summarised below:

Financial Regulations

The establishment of Financial Regulations provides the financial controls and procedures necessary to address the demands on local government. They also provide clarity about the financial accountabilities of individuals - Members, the Chief Executive (the Head of Paid Service), the Monitoring Officer, the Director of Resources (Section 151 Officer) and other Directors, Heads of Service and staff generally. The Regulations are therefore formally endorsed by the Council as a key part of the Council's Constitution.

The Financial Regulations provide the overall key control framework to enable the council to exercise effective financial management and control of its resources and assets. Another key purpose of the Regulations is to support and protect Members and staff in the performance of their duties where financial issues are involved.

Contract Procedure Rules

The Contract Procedure Rules provide the framework for procuring our goods and services for the Council.

The Contract Procedure Rules ensure there are rules to govern how we procure goods and services to make the most effective and efficient use of resources to deliver best value for the Council and the local community.

The Rules identify what route to take when ordering goods and services for the Council and compliance with these rules is a requirement for all Council employees.

All contracts are awarded in accordance with these rules and the Financial Regulations

Budget Monitoring

Regular budget monitoring is undertaken on a monthly basis between the service accountants and the various budget holders.

The variations between budget and actuals are split into groups of red, amber and green variances. The red variances highlight specific areas of high concern, for which budget holders are required to have an action plan. Amber variances are potential areas of high concern and green variances are areas, which currently do not present any significant concern.

- Variance of more than £5,000 (Red)
- Variance between £2,000 and £4,999 (Amber)
- Variance less than £2,000 (Green)

Detailed reports on our budget monitoring are sent to our service committees on a regular basis, and further information is provided to our Corporate Management Team and Budget Working Group.

This budgetary control ensures that once Full Council has approved a revenue budget or a capital programme, the resources allocated are used for their intended purposes, i.e. the agreed priority areas, and are properly accounted for. It is a continuous process, enabling the council to review and adjust its budget targets during the financial year to make the most effective use of resources in delivering the Council's policies and objectives. The budgetary control framework in the Financial Regulations also sets out the accountabilities of managers for defined elements of the budget.

By continuously identifying and explaining variances against budgetary targets, we can identify changes in trends and resource requirements at the earliest opportunity.

To ensure that the council as a whole does not over or underspend, each service is required to manage its own expenditure within approved resources and to identify any surplus resources for diversion to other programme areas. A mechanism is provided for switching funds between budget heads, including contingencies and reserves, where required, in order to maintain service levels and achieve policy objectives.

Budget Working Group

The Budget Working Group is a working group of, and reporting to, our Policy and Finance Committee.

Primarily the working group is involved in the budget setting process and gives guidance to service committees on the review and development of their budgets as part of the budget setting process. They also make recommendations to our Policy and Finance in the setting of the budget.

The working group is also involved in other financial management and reporting areas, including considering responses to finance related consultations.