GENERAL FUND FORECAST ASSUMPTIONS

APPENDIX F

The following assumptions have been made as part of reporting a gross deficit of £0.257m in 2020/21 and reporting a gross deficit of £2.075m and £3.079m in 2021/22 and 2022/23 respectively.

Key Assumption	20/21	21/22	22/23	Comment
INCOME/FUNDING				
Increase in Council Tax	0%	0%	0%	There will be 0% increase in 2020/21 with future increased dependent on the outcome of the fair funding and business rates review.
Council Tax Base Increases	1.20%	1.20%	1.00%	A prudent estimate based on housebuilding projections both past and present
Increase in Retained Business Rates through Growth	0%	0%	0%	Revaluations, appeals and possible changes to the baseline mean that the Council assumed no increase in the business rates base through growth
Additional Business Rates - Lancashire Pooling Arrangements	£0.800m	£0.000m	£0.000m	The 2020/21 figure is the additional business rates retained by Chorley Council as part of the Lancashire business rates pool It is assumed in 2021/22 that the new funding regime will reduce Chorley Council's retained business rates to levels close to those prior to pilot or pool membership.
Business Rates Equalisation Reserve	£0.960m	£0.960m	£0.960m	The council has set aside and will continue to set aside resources to manage any one-off large reductions in retained business rates. A reserve of £0.960m equates approximately to a 10% reduction in local business rates.
Total Forecast New Homes Bonus	£2.346m	£1.125m	£0.550m	The allocations assumed in the coming three years are based on the outcome of the provisional finance settlement. New Homes Bonus will be phased out in the coming three years with no announcement regarding what might replace it.

Key Assumption	20/21	21/22	22/23	Comment
Planning Fee Income	£550k	£550k	£550k	There are a number of large sites due to gain planning approval in the coming years. However the potential impact from Brexit suggests planning income could fall. The budget of £550k is therefore deemed prudent and achievable.
Increase Parking Income	£0	£0	£200k	Parking charges were reduced in 2017/18 as the town centre is significantly redeveloped. The charges are assumed to increase back to previous levels when development is complete in 2022/23. This will be dependent on a new Chorley Council Parking Strategy subject to be developed in 2020/21.
Income from Lancashire County Council (LCC)	£210k	£210k	£210k	£114k of funding has been approved for 2020/21 to 2022/23 for LCC contribution to the integrated home improvement service. LCC also continues to provide the £96k annual allocation towards the maintenance of highways.

EXPENDTIURE

Key Assumption	20/21	21/22	22/23	Comment
Pay Award	2.0%	2.0%	2.0%	An average 2% pay increase per year has been assumed for 2020/21 to 2022/23. However, Unions are strongly supporting a 10 per cent pay increase and a £10 minimum hourly rate claim for local government workers in starting April 2020.
Vacancy Saving	£150k	£150k	£150k	The council has achieved larger savings in vacancies in prior years however some new structures have been approved and posts permanently recruited to. Other temporary structures still exist but some posts are filled by more expensive agency staff.
Future Service Pension Rate	16.4%	16.4%	16.4%	These figures are the confirmed contribution rates that are the result of the triennial pension review undertaken in 2019.
Pension Fund Deficit Recovery	£0.416m	£0.432m	£0.450m	Chorley Council's 'share' of the Lancashire Pension Fund remains in deficit however annual contributions have more than halved. These figures are the confirmed contributions that are the result of the triennial pension review undertaken in 2019.
General Price Inflation	Approx. 2%	Approx. 2%	Approx. 2%	Inflation forecasts from the Office of National Statistics (ONS) have been used to inform the budget over the coming 3 years. These estimates are deemed prudent and will be reviewed annually to ensure budgets are sufficient to meet inflationary pressures.

Risk

The uncertainty in the coming years relates to primarily:

- to future government funding, due to the Fair Funding Review, the localisation of business rates expected from 2021-2022
- the impact of Brexit on the national and local economy

Chorley Borough Council is becoming increasingly reliant on income generating services and therefore may be adversely affected by the current economic uncertainty as a result of Brexit and reforms to government funding.

Capital Strategy

The council's Capital Strategy outlines the assumptions and risks to its current and future income generating assets.

The **Market Walk** shopping centre generates £0.900m net income and £1.7m gross income for the council. Voids at the current Market Shopping Centre, remain low renegotiation of recent lease renewals have also resulted in reduced rents; this is in-line with national trends exhibiting a slowdown in the retail industry. The council mitigates these risks by annually reinvesting £50k of surplus from the shopping centre into an income equalisation reserve that now stands at £440k (26% of total income). In addition, the council employs local letting agents to source new tenants and the council offers business grants to stimulate economic interest in the Borough.

The council's capital programme includes major **income generating projects** including the extension to Market Walk shopping centre, Strawberry Fields Digital Office Park, Primrose Gardens Retirement Village and the recent purchase of Logistics House. The net income from these projects in 2022/23 is forecast to be £975k with gross income of £3.6m. Falls in occupancy levels as well as increases in interest rates could reduce the returns from these projects.

The extension to the Market Walk shopping centre will attract commercial interest from national leisure and retail providers. As part of any retail development the landlord offers upfront capital incentives to tenants as part of the lease agreement. The costs of these incentives are spread over the length of the rental agreement. There is a risk that a significant shock to the national economy could result in the insolvency of some tenants. If this were to happen the total cost of the capital incentives would be charged to the council's revenue budget. It should be noted that the risk reduces year-on-year as the capital incentives are offset against the rental income and therefore reduced over the length of the agreement. This risk will be managed through the general fund.

Business Rates

The uncertainty surrounding the way on which Brexit will be implemented has caused disruption to the UK economy causing volatility in the exchange rate, stock market, house prices and reduced investment in UK business[1].

The effect on the business rates retained by the council is twofold:

- Private sector investment in the local economy is reduced or the local economy shrinks
- Local businesses submit increased numbers of appeals against their rateable values. When constructing rateable values the Valuation Office assesses the rent at which the site may reasonably be expected to let.

The first outcome would result in stagnated or lower retained business rates to the council in the short and possibly medium term. Approximately speaking a 10% reduction in total business rates within the borough would reduce the council's budget by £1.5m.

To mitigate the impact of a contraction in the local economy the council has set aside a **Business Rates Income Equalisation Reserve.** The reserve will stand at approximately £1m by 2020/21. This reserve can be used to smooth out the short-term impact that a slowdown in the local economy may present to retained business rates. However, permanent or prolonged reductions in business rates would result in a reduction in the council's budget.

The council holds a provision to mitigate the impact that appeals have on the business rates collection fund, included the backdated impact on the council's resources. It is possible that any slowdown experienced from Brexit could result in businesses appealing against their rateable value. The council's provision for appeals will stand at approximately £4.5m in 2020/21 which is comparable to the national average. It should be noted that since the introduction of the check, challenge, appeal process the number of appeals lodged and taken fallen has reduced dramatically.

Other uncertainty to business rates comes from the proposed reforms to the business rates retention system in 2021/22. The fair funding review will change the distribution of retained income across England and the outcomes are uncertain. As well as setting aside the income equalisation reserve, the council has been prudent in its medium-term budgeting and assumed that the £800k benefit of being in the Lancashire Pool in 2020/21 will not be realised in future years. The outcome of the business rates reform will not be known until late in 2020 at the earliest.

Finally, a large risk associated with business rates income relates to two applications for mandatory charitable relief received from Lancashire Teaching Hospitals NHS Foundation Trust. If successful, the application would be back dated to 2010 and therefore have a significant impact on the Council's revenue budget. The headline figure was a potential £2.4m impact on the Council's general fund for relief from 2010/11 to 2018/19; a further c£280k reduction in retained business rates in respect of 2019/20; and possibly a similar sum in subsequent years. The High Court has ruled that NHS Trusts and Foundation Trusts

[1] ONS figures on Gross fixed capital formation (GFCF)

are not eligible for mandatory business rates relief. Although a favourable outcome for councils, given the large amounts of money involved for Foundations Trusts across the country it seems likely that an appeal will be submitted. This therefore remains a risk and will be managed through the general fund.

Other Budgets

The impact of uncertainty that has resulted from Brexit has resulted in a reduction in investment within the construction industry. In addition, Brexit could impact further on the UK construction industry as it is significantly dependent on EU migrant workers and EU construction materials. Perhaps the largest impact this may have on the council's budget is through reductions in planning fee income. An expected slow-down in developments within the borough will reduce the number of applications processed by the council. As a result, the council reduced its expected planning fee income by £100k (15%) in 2019/20 onwards.

The largest contract the council will manage in 2019/20 will be with the waste collection services provider. Similar risks will present themselves in terms of availability of workers and the supply of plant. This is deemed a low risk problem as the contractor uses a local workforce and although it orders plant from within the EU, it also has a contingency fleet available to the council.

Grant Funding

The council was successful in securing approximately £4m of ERDF funding towards the Strawberry Fields Digital Hub. The MHCLG has confirmed that Brexit will not impact on the security of this funding. The council has already drawn-down the majority of this funding as the project comes to a close.

The government has announced £35k of one-off funding for district councils across two years to help manage the transition post-Brexit. This will be brought into the £300k reserve set aside in 2019/20 to support Local Businesses & Corporate Priorities during the uncertainty of the transition to Brexit and beyond.

General Fund

As outlined in this appendix the council holds many different specific reserves to manage the financial risks it is exposed to. The largest reserve the council holds is the general fund which is forecast to be £4m by the end of 2019/20. Chorley Council holds a large general fund relative to its size and is above average when compared to other Lancashire District Councils, as a result it is in a strong position to manage the financial risks it is exposed to.