

**REPORT OF: FINANCIAL SERVICES  
FINANCIAL SERVICES MANAGER**

**TO: EXECUTIVE**

**DATES: 10<sup>th</sup> DECEMBER 2015**

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## **GENERAL FUND REVENUE BUDGET 2016/17**

### **PURPOSE OF REPORT**

1. The purpose of this report is to:-
  - a) update the Executive on the Spending Review 2015 and Autumn Statement announced by the Chancellor in late November;
  - b) obtain approval for the Revised Budget for 2015/16 and to present the draft Base Budget for 2016/17 for initial consideration;
  - c) present a budget strategy (including savings proposals) as part of an approach to achieve a balanced budget in 2016/17 (along with outline proposals for 2017/19); and
  - d) request the Executive give consideration to the development of a budget for 2016/17 and for the Medium-term Financial Plan period (to 2018/19).

### **RECOMMENDATIONS**

2. The Executive is recommended to:-
  - a) Note the key points arising from the recently announced Spending Review 2015 and the potential implications for the Council;
  - b) Provide delegated authority to the Financial Services Manager, in consultation with the Executive Councillor for Finance and Devolution, to prepare and submit the Council's response to the consultation on the provisional Local Government Finance Settlement for 2016/17, details of which are expected to be announced prior to the festive period.
  - c) approve the Revised Budget for 2015/16;

- d) note the draft Base Budget for 2016/17, the forecast Medium Term Financial Plan and the assumptions underpinning both;
- e) as part of the development of the Executive's Budget Strategy for 2016/17:-
  - i) note Management Team's initial proposals to achieve a balanced budget for 2016/17 and, in doing so, review the savings proposals shown at [Appendix F](#) with a view to recommending them to Council for implementation;
  - ii) undertake a review of the draft Base Budget for 2016/17 to identify any other areas where further savings proposals should be brought forward for consideration as part of the budget process;
- f) note the outline savings proposals for 2017/18 and 2018/19 and agree that, as a minimum, these options should form the basis of the further work necessary to achieve a balanced budget in those years;
- g) to support the work outlined in (f) above, agree to maintain the Budget Working Group and confirm this should continue as currently constituted (i.e. 2:2:2);
- h) note the financial planning assumption of a Council Tax increase of 1.99% for 2016/17 (pending confirmation of the arrangements for Council Tax Freeze grant (if any) as part of the Local Government Finance Settlement for 2016/17);
- i) agree that from 2016/17 the Borough Council should be reimbursed by Town and Parish Councils for the costs incurred in holding local council Elections (paragraph 41 refers).
- j) note the timetable for the remainder of the budget process as set out in the report.

## **REASONS FOR RECOMMENDATIONS**

- 3. To continue with the implementation of the Council's Financial Strategy and to inform the development of the Council's budget for 2016/17.

## **ISSUE**

### **Background**

- 4. This report focuses primarily on the Council's revised budget for 2015/16 and the draft base budget for 2016/17. Information is also provided on the Medium Term Financial Plan for 2016/19 to allow the Executive to consider budgetary decisions for next year in the context of the Council's projected medium term financial position. This is crucial given the significant funding reductions faced by the Council and the need for the Executive to take early action to reduce the Council's net expenditure.
- 5. This report sets out the issues associated with this and proposes a budget for 2016/17 and the medium term for the Executive to consider and, if agreeable, to recommend for adoption by the Council in February. The Executive is advised that this report has been prepared at a time when details of the Provisional Local Government Finance Settlement for 2016/17 are not yet available. In recent years the Settlement has been published in the run up to Christmas and once details are available this could result in changes to the Council's funding compared with the position currently outlined in this report.

6. Whilst the Settlement for local government has yet to be published the Chancellor did announce the outcome of the Spending Review 2015 and the Autumn Statement on the 25<sup>th</sup> November, elements of which provide an indication of the resource changes applicable to local authorities.

### ***Spending Review 2015 – Overview***

7. The review sets out the government's spending plans for 2016/17 to 2019/20. The funding amounts for the main government departments are shown below. Funding for local government remains an unprotected area of government spending and from the table below can be seen to experience the largest reduction in planned spending. It is important to note that the figures for local government do not include the locally financed element of local government funding (i.e. council tax and business rates so is therefore not a true reflection of the change in funding).

	2015/16	2016/17	2017/18	2018/19	2019/20	%
	£bn	£bn	£bn	£bn	£bn	Change
Defence	27.2	27.8	28.5	29.2	30.0	10%
Home Office	10.3	10.7	10.6	10.6	10.6	3%
Health	111.6	115.6	118.7	121.3	124.1	11%
Work and Pensions	5.8	6.1	6.3	5.9	5.4	-7%
Education	53.6	54.4	55.5	56.4	57.1	7%
Business, Innovation & Skills	12.9	13.4	12.3	11.7	11.5	-11%
Justice	6.2	6.5	6.3	5.8	5.6	-10%
DCLG Local Government DEL	11.5	9.6	7.4	6.1	5.4	-53%

8. Whilst the above provides an indication of the Government's funding of local government, the specific implications for Pendle will not be known until the publication of the Local Government Finance Settlement which is expected prior to Christmas. Our own projections, as set out in Table 1 below, assume a net reduction in core funding of 35% by 2018/19.
9. Other relevant aspects of the review and Autumn Statement include the following:
- Reform of business rates retention scheme with 100% retained locally by 2020;
  - Additional responsibilities to be placed on local government linked to the above;
  - New Homes Bonus – consultation on savings of £800m to fund social care and shortening the period the bonus is paid to local authorities from 6 to 4 years;
  - Councils to be allowed to spend capital receipts on the revenue costs of 'reform' projects;
  - Small Business Rate Relief extended for 12 months to 31/3/2017;
  - Allowance for 2% council tax increase linked to specific funding for adult social care;

### ***Local Government Finance Settlement***

#### ***Funding for 2016/17***

10. At the time of writing this report, details of the provisional Local Government Financial Settlement for 2016/17 had not been announced. Based on recent years, publication is expected prior to Christmas.
11. Once the Settlement is published there is a period allowed for written representations. It is proposed to maintain the Council's established practice whereby the Chief Finance Officer prepares and submits the Council's response in consultation with the Executive Portfolio Holder for Finance and Devolution. If agreeable, the Executive is asked to provide delegated authority to the report author for this purpose.

12. Pending publication of the Settlement, the forecast funding position to 2018/19 is as broadly set out in the last report to the Executive in June. Table 1 below summarises the estimate of core revenue funding the Council is expected to receive over the next 3 years:-

**Table 1: Estimate of Core Revenue Funding for 2015/16 to 2018/19**

	Actual Funding 2015/16 £000	Estimated Funding 2016/17 £000	Estimated Funding 2017/18 £000	Estimated Funding 2018/19 £000
Estimate of Retained Business Rates	3,670	3,668	3,773	3,900
<b>Add</b> Revenue Support Grant	3,904	2,866	1,995	1,190
<b>Total</b>	<b>7,574</b>	<b>6,534</b>	<b>5,768</b>	<b>5,090</b>
<b>less</b> Council Tax Support Grant	-1,236	-1,236	-1,236	-1,236
<b>less</b> Homelessness Grant	-97	-97	-97	-97
<b>'Formula Grant' (equivalent)</b>	<b>6,241</b>	<b>5,201</b>	<b>4,435</b>	<b>3,757</b>
<b>Add</b> Efficiency Support Grant & New Homes Bonus	993	1,062	1,011	969
<b>Estimate of Funding</b>	<b>7,234</b>	<b>6,263</b>	<b>5,446</b>	<b>4,726</b>
<b>Cumulative change since 2010/11</b>	<b>-45%</b>	<b>-52%</b>	<b>-59%</b>	<b>-64%</b>

**Addendum to Table 1: Calculation of Estimate of Retained Business Rates**

	£000	£000	£000	£000
Individual Authority Business Rates	7,730	7,809	8,033	8,304
Tariff Payment to Government	(4,060)	(4,141)	(4,260)	(4,404)
<b>Estimate of Retained Business Rates</b>	<b>3,670</b>	<b>3,668</b>	<b>3,773</b>	<b>3,900</b>

13. As the Table indicates, it is currently estimated that the Council's funding will fall from £7.2m in 2015/16 to £4.7m in 2018/19, a reduction of £2.5m (and a cumulative reduction of 64% since 2010/11).

### **Revised Budget 2015/16**

14. The Executive has received quarterly Strategic Monitoring reports during the year providing details of the budget monitoring that has been undertaken. Table 2 below provides a summary of the revised budget for 2015/16 with a detailed analysis provided at [Appendix A](#). This indicates that, in comparison to the approved budget for the year, it is estimated that there will be an underspend of £90k for the year.

**Table 2: Revised Budget 2015/16**

	Approved Budget 2015/16 £000	Revised Budget 2015/16 £000	Variance £000	Variance %
Net Cost of Services	18,432	17,896	(536)	(2.91)
Corporate Income/Expenditure	(1,452)	(1,535)	(83)	(5.72)
<b>Net Expenditure</b>	<b>16,980</b>	<b>16,361</b>	<b>(619)</b>	<b>(3.65)</b>
Use of Specific Reserves	(2,172)	(1,643)	529	(24.36)
<b>Net Expenditure</b>	<b>14,808</b>	<b>14,718</b>	<b>(90)</b>	<b>(0.61)</b>
Budget Requirement	13,190	13,190	-	-
<b>Use of Budget Support Reserves</b>	<b>1,618</b>	<b>1,528</b>	<b>(90)</b>	<b>(5.56)</b>

Source: Appendices A and B

15. The key variances between the approved and revised budget which contribute to the forecast underspend of £90k are as follows:-

- Housing Benefit – net additional expenditure of £192k, mainly linked to an increase in expenditure which attracts a lower level of subsidy;
  - Net employee related savings of £149k as a result of various vacant posts in the Council's Service Areas;
  - Business Rates Levy – a reduction of £178k in the levy payable to Government as a result of a lower forecast for the Council's share of retained business rates in the current year;
  - Savings on the Minimum Revenue Provision of £93k owing to slippage on the capital programme from 2014/15;
  - Discover Pendle Visitor Centre – re-instatement of budget as saving of £40k not achieved;
  - Income – reduced rental income, primarily from Markets of £49k, offset in part by increased income from fees and charges and miscellaneous income of £44k;
  - Reduced transport related expenditure and general supplies and services of £59k.
16. As part of the Revised Budget, a contribution of £150,000 is proposed to a new reserve, namely the Business Rates Volatility Reserve. This is proposed in recognition of the uncertainty surrounding the level of business rates income and the fluctuations that can arise one year to the next, primarily due to the impact of business rate appeals. The reserve is proposed to help mitigate this uncertainty and is assumed in the Council's budget for 2016/17. Without this contribution the forecast underspend for the current year would be £240,000.
17. An analysis of the major variances (+/- £10,000) is provided at [Appendix B](#). Assuming the underspend of £90k is maintained up to the year end, this will mean that the amount drawn from the Budget Support Reserve to balance the Council's budget for 2015/16 will reduce to £1.528m compared with the approved budget contribution of £1.618m.
18. The Revised Budget 2015/16 reflects the current best estimate of the likely outturn position for the year. Work will continue on the monitoring of the budget for the remainder of this financial year and any further variations will be reported as part of the quarterly monitoring reports.

### **Base Budget 2016/17**

19. Work has been underway in the last few months on the development of the Council's Base Budget for 2016/17. Table 3 below provides a summary of the Base Budget for 2016/17 compared with the Approved Budget for 2015/16:-

**Table 3: Base Budget 2016/17**

	Approved Budget 2015/16 £000	Base Budget 2016/17 £000	Change £000	Change %
Net Expenditure	16,980	15,214	(1,766)	(10.40)
Use of Specific Reserves	(2,172)	(749)	1,423	65.52
<b>Net Expenditure (after Specific Reserves)</b>	<b>14,808</b>	<b>14,465</b>	<b>(343)</b>	<b>(2.32)</b>

Source: Appendices A and C

20. The key changes in the budget are set out in [Appendix C](#). Throughout the development of the Council's Financial Strategy for 2016/19, a number of issues have been highlighted that will impact on the budget for 2016/17 (and future years) and which may need to be addressed. In some cases, progress has been made, and in others there is further work to be undertaken. Details are provided in [Appendix D](#).

### ***The Strategy for Reserves and Balances***

21. An analysis of Balances and Reserves is provided at [Appendix E](#). At the meeting of the Executive in June 2015, the following strategy for using Balances and Reserves was proposed:-
- the Minimum Working Balance to remain at £1.250m over the period to 2018/19 (this will be reviewed and reported formally to Council in February) with the balance on the Bond Reserve (£0.5m) unchanged subject to annual review;
  - the use of £3.65m from the Budget Strategy reserve over the next three years with £1.35m in 2016/17, £1.3m in 2017/18 and £1m in 2018/19 (this assumes the Council will receive £650k from Housing Pendle under specific income sharing arrangements over the same period);
  - Committed (Specific) Reserves will be used only for the purposes for which they have been set aside and will be subject to an annual review. The current Medium Term Financial Plan shown below assumes the use of £0.95m of specific reserves in the period to 2018/19;
22. Table 4 below provides an analysis of how non-committed reserves are estimated to be used over the next four years with a residual balance available as at 31/3/19 estimated at c£1m:-

**Table 4: Estimated Use of Non-committed reserves 2015/19**

	Estimated Opening Balance £000	Less Committed Reserves*2 £'000	Non-committed (Available) Reserves £'000	Proposed Budgeted Use £000	In-year Receipt*3 £000	Estimated Closing Balance £000
Reserves 31/3/15*1	10,739	(5,096)	5,643			
2015/16	5,643			(1,853)	250	4,040
2016/17	4,040			(1,350)	250	2,940
2017/18	2,940			(1,300)	200	1,840
2018/19	1,840			(1,000)	200	1,040
<b>Total</b>				<b>(5,503)</b>	<b>900</b>	

\*1 – Excludes Minimum Working Balance of £1.250m and Liberata Bond Reserve of £500k;

\*2 – More information on committed reserves is shown in Appendix E.

\*3 – Estimated of VAT Shelter Receipts from Housing Pendle. The profile of these receipts cannot be confirmed at this stage and may differ from the analysis shown above.

### ***Medium Term Financial Plan 2016/19***

23. In developing the base budget for 2016/17, work has also been undertaken to update the Medium Term Financial Plan to 2018/19. The assumptions underpinning the development of the Medium Term Financial Plan are set out at [Appendix D](#). Table 5 below provides a summary of the latest financial forecast:

**Table 5: Medium Term Financial Plan 2016/19**

	<b>Budget 2016/17 £000</b>	<b>Forecast 2017/18 £000</b>	<b>Forecast 2018/19 £000</b>
Net Revenue Expenditure	<b>15,214</b>	<b>15,862</b>	<b>16,746</b>
<u>Less:</u>			
Government Grant	(2,866)	(1,995)	(1,190)
Retained Business Rates (net)	(3,157)	(3,773)	(3,900)
Council Tax Income (incl. Colln Fund Surplus)	(6,023)	(5,712)	(5,855)
<b>Total Funding</b>	<b>(12,046)</b>	<b>(11,480)</b>	<b>(10,945)</b>
<b>Local Funding Gap</b>	<b>3,168</b>	<b>4,382</b>	<b>5,801</b>
Use of Reserves	(2,099)	(1,400)	(1,100)
<b>Cumulative Savings Required</b>	<b>1,069</b>	<b>2,982</b>	<b>4,701</b>
Previous Year's Savings (if achieved)		(1,069)	(2,982)
<b>In-Year Savings Requirement</b>	<b>1,069</b>	<b>1,913</b>	<b>1,719</b>

24. As the table indicates, to achieve a balanced budget in 2016/17, ongoing savings of at least £1.07m are required, with a further £1.913m required in 2017/18 and £1.719m in 2018/19. **Cumulatively, on the basis of current forecasts, the savings required over the next 3 years total £4.7m.**

### ***The Financial Strategy for 2016/19***

25. The Spending Review 2015 points to significant and ongoing reductions in funding for local government as a 'non-protected' area. Given the unprecedented financial challenge facing the Council it is proposed that the strategy adopted for the medium-term continues to build on the following themes as agreed last year and endorsed again in the June 2015 report:
- **Growing** the Council's income using the funding mechanisms now in place for local government, particularly the Business Rate Retention Scheme and the New Homes Bonus. This means that the Council must actively consider ways in which it can increase income from business and housing growth to ensure that funding for services can be maintained;
  - **Charging** for services, raising income which will mean that it is possible to continue providing services that resident's value. This will mean reviewing the level of fees and charges, reducing the subsidy on some services and considering the introduction of new fees and charges. It will also include reviewing the level of discretionary council tax discounts and the local scheme of Council Tax Support;
  - **Saving** costs by, for example, reviewing how the Council delivers services, doing things differently and more efficiently, scaling services to appropriate levels within the resources available to the Council and working with partners, including local town and parish councils to sustain local facilities.
26. The following narrative provides more detail on each of these approaches.



## **Growing**

### *Business Rates Income*

27. The Business Rates Retention Scheme offers the opportunity to increase the Council's income by increasing the amount of retained business rates. This does, however, require growth in the business rates tax base, i.e. more business ratable properties to be provided in the Borough. There is, therefore, a clear link here with a strategic approach to economic growth and regeneration within the Borough.
28. To put this in some context, the Council's business rates tax base is currently £52.3m. In broad terms, for every £1.5m growth in the Taxbase (equivalent to, say, an additional Superstore), the Council's share of business rate income would increase by c£300k per annum (assuming no other changes).
29. The Council's present strategy for economic development and regeneration focuses rightly on growth in existing businesses within Pendle (albeit accepting that, where the opportunities present themselves, encouraging inward investment in the Borough). There is a need, therefore, for the Council and its Partners – locally with the Pendle Vision Board, sub regionally as part of PLACE and regionally through the Lancashire Local Enterprise Partnership (LEP) and potentially the Combined Authority – to ensure that those businesses that want to grow are supported in doing so. In this context, the Council is:-
  - actively engaged in discussions and consideration of a Combined Authority for Lancashire; a report on this will be considered at Council in December; if agreed, the formation of a Combined Authority could entail a strategic approach to economic development and regeneration on a county-wide basis;
  - participating in the current Lancashire Strategic Economic Plan (SEP) and the Growth Deal with Government as a means of attracting investment from the Single Local Growth Fund into the Pendle area;
  - contributing to the development of the East Lancashire Highways and Transport Masterplan aimed at improving the transport infrastructure and connectivity within Pendle and with other parts of Lancashire and Yorkshire which will underpin economic and housing growth in the area;
  - developing and implementing the Jobs and Growth Strategy for the Pendle area. The Strategy was approved by Council in December 2013 which is intended to guide the economic development of the Pendle Area;
  - bringing forward an extension to Lomeshaye Industrial Estate as a strategic employment site within the Council's Core Strategy and the development of Trough Laithe, Barrowford as a strategic housing site;
  - working with the Pendle Vision Board to promote and raise the profile of Pendle (and its constituent Towns) as a place to do business and as a means of encouraging networking between businesses, skills providers and the public sector.

### *Pooling of Business Rates*

30. An application was submitted to DCLG in early November to form a business rate 'pool' in 2016/17 for participating Lancashire authorities. The background to this was reported to the Executive in July. The benefit of a pool is that any levy payable to Government under the current rates retention scheme is retained locally. The counter to this is the safety net protection granted by Government under the scheme no longer applies to 'pooled' authorities.



The Council's budget for next year currently assumes a levy of £0.23m. No announcement has yet been made by DCLG on pooling for next year and an update on this will be provided in February.

31. In the Spending Review the Chancellor re-iterated previous announcements regarding the move to 100% business rates retention by the end of this Parliament. The indications are that government will consult shortly on this area. The government also intends to consult on changes to the local government finance system to rebalance support, including to those authorities with social care responsibilities by taking into account the main resources available to councils, including council tax and business rates. Based on articles published recently, this is taken to be reference to a possible change in the local share of business rates between county councils and districts.
32. Key features of the move to 100% business rates retention will include the ability for directly elected Mayors to increase the local rate for specific infrastructure projects and the ability for local authorities to reduce rates locally.

### *Growth in New Homes Bonus*

33. Increasing the Council's share of income from the New Homes Bonus is dependent on increasing the supply of new homes and the number of empty homes that are brought back into use. On the basis of the present New Homes Bonus Scheme, every property built or empty property brought back into use generates income of c£5k over a 6 year period.
34. The government is to consult on reforms to the New Homes Bonus, including means of 'sharpening' the incentive to reward communities for additional homes and reducing the length of payments from 6 years to 4 years. This will include a preferred option for savings of at least £800 million, which can be used for social care. Details of both reforms will be set out as part of the local government finance settlement consultation, which will include consideration of proposals to introduce a floor, which is intended to ensure that no authority loses out disproportionately.
35. The delivery of net new homes in Pendle has been limited since the introduction of New Homes Bonus. The growth in the Council's share of the Bonus has resulted from good progress in reducing the number of empty homes rather than new build. Whilst acknowledging the difficulties of housing development in Pendle, there is a need to consider what action the Council might be able to take to address the delivery of new housing.

### ***Charging***

29. Annually, the Council reviews its fees and charges. The review for 2016/17 was reported to the Executive in September following prior consideration of various proposals by the Budget Working Group. The proposals agreed generated limited additional income. The most significant proposal was deferred for further consideration, namely changes to Cemetery fees and charges. This is resubmitted in this report as part of the saving proposals presented at [Appendix F](#).
30. A number of other proposals that have been considered and rejected previously by Councillors are also resubmitted at [Appendix F](#). These include the introduction of charges for services that residents value, for example, for the collection of Bulky Household Waste; administrative charges for replacement Wheeled Bins and increasing the subscription fee payable for the Garden Waste scheme. In view of the scale of savings required these proposals are resubmitted for further consideration.

## Saving

31. Whilst the Business Rate Retention Scheme and the New Homes Bonus do offer opportunities to increase the Council's income, any growth in the near term will not make up for the significant reduction in Government grant and resolve the Council's budget deficit.
32. Equally, the Council's ability to charge for services or reduce the extent of discounts is unlikely in isolation to generate sufficient additional income to make up for the funding shortfall faced by the Council. In view of this, the Council needs to consider ways in which it might also reduce expenditure in other ways to ensure that it has a balanced budget over the medium term.
33. In view of the above and the level of savings required work has been undertaken to identify savings options that could be implemented over the period to 2018/19. Given the magnitude of savings required, and bearing in mind the savings already achieved since 2010, an impact on frontline services is increasingly unavoidable.
34. It should also be noted that, in considering the Council's arrangements for securing financial resilience, the Council's External Auditors continue to highlight the absence of a detailed plan for savings. The approach here seeks to address that concern but equally provides the Executive with details of budget changes that will be necessary in coming years.
35. An analysis of savings proposals for 2016/19 is provided at [Appendix F](#); these total £3.52m and a summary of the proposals is provided in Table 6 below:-

**Table 6: Savings Proposals**

	<b>Budget 2016/17 £000</b>	<b>Forecast 2017/18 £000</b>	<b>Forecast 2018/19 £000</b>	<b>Total 2016/19 £000</b>
Agreed Savings (Council 10/15)	303	0	0	<b>303</b>
Proposed Savings	1,147	866	1,201	<b>3,214</b>
Total Savings	1,450	866	1,201	<b>3,517</b>

37. The following issues should be noted about the savings proposals:-
  - a) the 'agreed' savings shown above for 2016/17 were accepted by Council in October 2015 and have been built in to the budgets now submitted. Hence, the updated savings' target for next year is now estimated at £1.07m. The saving proposals shown in [Appendix F\(i\)](#) total £1.147m for 2016/17.
  - b) the additional £50k of staff savings proposed for 2016/17 stems from the management of vacant posts. Proposals for subsequent years will require further work and expressions of interest will be sought from staff who may want to work reduced hours, apply for voluntary redundancy or request flexible retirement. Despite this it is not possible at this stage to rule out the requirement for staff reductions from 2017/18 owing to the scale of savings required.
  - c) details of the initial set of proposed savings from the Leisure Trust have been considered by the Budget Working Group which met with senior management from the Trust. In addition separate discussions have been held to determine the options available to sustain the Blues Festival in Colne whilst enabling the Trust to make the savings required of it by the Council. The Trust Board met in late November to consider its savings submission to the Council for 2016/17. The outcome from this meeting indicates additional potential savings of c£115k but further work needs to be done in conjunction with the Trust to conclude this as there remains a projected deficit on the Trust's budget for the year.

38. Work is ongoing to firm up some of the savings proposals. A narrative supporting each proposal is provided at [Appendix F \(ii\)](#).
39. The Council has made significant savings since 2010. On staffing, the Council has reduced its headcount from 400 in 2010 to 266 in 2015. Budget reductions of £6m have been made since 2010/11. Whilst acknowledging the progress made in delivering savings to-date, it is considered that there is limited scope to generate more from the ongoing, attritional reduction in services. To bridge the savings gap will require consideration of strategic decisions on key areas of council spending, most notably in relation to the following:
- Waste Management
  - Grounds Maintenance
  - Pendle Leisure Trust
  - Liberata
40. To determine the scope of potential options for each of the above and evaluate the best option(s) to pursue will take time. Therefore, for any significant savings to be achieved in respect of the above by 2017/18 the preparatory work needs to start now. To facilitate this work it is recommended that the Budget Working Group be continued in its current form. The outputs from this Group would be reported to the Executive.
41. Whilst not included as a specific saving proposal, one item the Executive is asked to consider is the costs of holding local elections for Town and Parish Councils. When these are held, the costs are met by the Borough Council. Since the Elections in May 2015 there have been 3 local By-Elections with costs totaling £13,681 met by Pendle Council. Going forward, it is proposed that the costs of all local elections should be recharged to the relevant Town or Parish Council. If this is agreed, costs would be recharged annually in arrears.

#### Council Tax

42. For financial planning purposes the medium-term financial plan assumes that Council Tax will increase by 1.99% predicated on the assumption that the Government will maintain the referendum threshold at 2% as in recent years. The Chancellor did announce scope for those authorities with social care responsibilities to levy a 2% increase in council tax with funds generated from this to be ring-fenced to support spending on social care. Whilst this is not an option available to Pendle it may be an option that the County Council takes up. Pendle, as the billing authority, will have to implement and administer this increase if it does.
43. At the present time it is not known whether the Government will provide funding to Councils in return for a freeze in Council Tax in 2016/17 (save for the social care dimension outlined above). An announcement on this is likely to be made later in December as part of the Local Government Finance Settlement.

#### Localisation of Council Tax Support Scheme

44. The Council's local scheme of Council Tax Support has operated without any fundamental change, save for the uprating of parameters as determined by DCLG, since 2013/14 when the scheme was first introduced. Whilst Pensioner claimants remain protected under the scheme those of working-age continue to receive support at 80% of calculated entitlement.
45. The estimated cost of the Scheme for 2015/16 was £7.15m. The latest budget monitoring on the Scheme indicates that it is likely to cost c£6.7m for 2015/16, an underspend of £0.45m. Pendle's share of this is estimated at c£72k. This is primarily a result of a lower than expected Council Tax charge for 2015/16 and a lower caseload.

46. The scheme for 2016/17 is the subject of a separate report elsewhere on this agenda and whilst no changes are proposed once again in terms of the scheme design it is intended to review the scheme in detail during 2016/17 which may result in changes from 2017/18. This would be subject to formal consultation with major preceptors and residents following which any revised scheme would require the agreement of Council.

### **Medium Term Capital Programme 2016/19**

47. A report elsewhere on the Agenda for this meeting also considers the Medium-Term Capital Programme and the capital project proposals for 2016/17 specifically.

### **Budget Consultation**

48. The Budget Working Group considered options for public engagement and felt it was very important to get the message across to the wider community as to the financial challenge facing the Council as well as outlining the savings being considered by the Council. The initial intention is to host a press conference on these matters in advance of this meeting.

49. Other consultation on the budget is planned as follows:-

- budget papers will be referred to the Scrutiny Management Committee and Area Committees to ensure that the budget discussions are held in an inclusive manner;
- in accordance with the statutory requirement to consult with the business community, consultation is planned with local industry and employers and will be conducted through the East Lancashire Chamber of Trade.

### **Management Team's Budget Proposal for 2016/17 (and to 2018/19)**

50. Subject to confirmation of the financial settlement for 2016/17, and further to the analysis above, Management Team proposes the following budget strategy for 2016/17:-

- an increase in Council Tax of 1.99%;
- implementation of all of the savings identified at [Appendix F](#) which will reduce the Council's net expenditure by £1.147m in 2016/17 assuming the pooling of business rates is agreed by DCLG; **if this is not agreed additional saving measures will be required.**
- use of reserves at a level sufficient to achieve a balanced budget albeit within the parameters of the Reserves Strategy set out above.

51. Table 7 below provides details of Management Team's initial budget proposal for 2016/17:-

**Table 7: Management Team's Initial Budget Proposals for 2016/17**

	<b>Budget 2016/17 £000</b>	<b>Forecast 2017/18 £000</b>	<b>Forecast 2018/19 £000</b>	<b>Total 2016/19 £000</b>
<b>In-Year Savings Requirement</b>	<b>1,069</b>	<b>1,913</b>	<b>1,719</b>	<b>4,701</b>
Growing	200	0	0	<b>200</b>
Charging	196	142	142	<b>480</b>
Saving	751	724	1,059	<b>2,534</b>
<b>Total Proposals</b>	<b>1,147</b>	<b>866</b>	<b>1,201</b>	<b>3,214</b>
<b>Shortfall/(Surplus)</b>	<b>(78)</b>	<b>1,047</b>	<b>518</b>	<b>1,487</b>

52. The Executive should note that the budget proposal set out above is not without its risks, including the following:-

- the savings required in the current and future years represent a significant challenge for the Council. To achieve these levels of savings is likely to require the Council to withdraw from some services and consider alternative service delivery models for others including further collaboration with the private as well as public and or third sectors;
- using the Council's reserves to balance the budget simply postpones rather than prevents the need for savings. The longer the savings are put off, the greater the challenge will become with less time to react in a planned way;
- using reserves at a rate greater than that presently assumed exposes the Council to the risk of costs for which there are no identified resources; in this scenario the Council would be forced to make reactive savings to balance the budget.

#### **What if the proposed savings/income generation measures are not implemented?**

53. The Executive is aware that the Council has to make significant reductions to net expenditure given the significant and continuing reductions in core funding. If the Council fails to make the level of savings currently required the shortfall can only be made up from finite reserves. This simply pushes the balance of savings required on to the next year and will exhaust the available balance of non-committed reserves quicker than planned. This is illustrated in Table 8 below which sets out a scenario under which savings of only £2.5m (and not the £3.5m as currently identified) are achieved over the next 3 years:-

**Table 8: Achieving Savings of £2.5m in 2016/19**

	<b>Budget 2016/17 £000</b>	<b>Forecast 2017/18 £000</b>	<b>Forecast 2018/19 £000</b>
Savings Not Achieved b/fwd	-	319	1,482
Minimum Level of Savings Required (see Table 5)	1,069	1,913	1,719
<b>Balance of Savings Required</b>	<b>1,069</b>	<b>2,232</b>	<b>3,201</b>
In Year Savings 2016/17	(750)	-	-
In Year Savings 2017/18	-	(750)	-
In Year Savings 2018/19	-	-	(3,162)
<b>Savings Not Achieved c/fwd</b>	<b>319</b>	<b>1,482</b>	<b>39</b>
Additional Use of Reserves	(319)	(1,482)	(39)
<b>Budget Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>

#### **Addendum: Impact on Non-Committed Reserves**

	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>
Opening Balance of Non –Committed Reserves (see Table 4)	4,040	2,621	39
Net Budgeted Use	(1,100)	(1,100)	(39)
Additional Use of Reserves if savings <u>not</u> achieved	(319)	(1,482)	0
<b>Total</b>	<b>2,621</b>	<b>39</b>	<b>0</b>

54. As the table above illustrates, if lower savings are achieved and in the absence of any increase in funding, the only option left for the Council to achieve a balanced budget each year is to use additional reserves. However, owing to the scale of the shortfall projected the Council would almost exhaust all non-committed reserves in 2017/18 with only £39k available to support the budget in 2018/19. This would then require significant reductions in expenditure which will need to be planned and considered in advance if the Council is to manage this transition to a lower cost base effectively.

## Next Steps

55. For the Executive's information, Table 9 below provides a forward outline timetable for the remainder of the current service and financial planning process:-

**Table 9: Forward Timetable for the Development of the Budget 2016/17**

Date	Action	Status
June 2015	Update of Medium Term Financial Plan	Completed
July – Oct 2015	Development of Budget Strategy Options – Budget Working Group	On-going
Nov 2015	Refine Medium Term Financial Plan to 2018/19	Completed
Nov 2015	Early drafting of Budget for 2016/17	Completed
Dec 2015	Press Conference	4/12/15
Dec 2015	Executive considers initial budget submission	This report
Dec 2015	Provisional Local Government Finance Settlement 2016/17	Awaited
Dec-Jan 2016	Development of draft Budget 2016/17 completed	In Progress
Jan 2016	Final Local Government Finance Settlement 2016/17	
Feb 2016	Executive recommends Budget and Council Tax to Council	
Feb 2016	Council sets Budget and Council Tax for 2016/17	
Mar / Apr 2016	Service Plans completed aligned to approved budget	

## IMPLICATIONS

### Policy

56. The Council's General Fund Revenue Budget supports the delivery of services in pursuance of the strategic objectives set out in the Strategic Plan. The position reported for 2016/17 and the forward projections in the report represent a significant challenge to service provision in the longer term. There is a need, therefore, to put in place a strategic approach to future financial planning with a particular focus on a move to a more sustainable budget base over the medium term planning period. The Council will also need to review policies on the delivery of existing services to determine whether the existing policy direction is affordable within the resources available.

### Financial

57. The financial implications are as given in the report.



## **Legal**

58. In accordance with s32 and s43 of the Local Government Finance Act 1992 (LGFA 1992), annually the Council must calculate and approve its budget requirement for the forthcoming financial year.
59. Section 25 of the Local Government Act 2003 also requires the Financial Services Manager, as the officer having responsibility for the administration of the Council's financial affairs, to report to the Council on the robustness of the budget estimates and adequacy of financial reserves when determining its budget requirement under the LGFA 1992. This report will be submitted for consideration by the Council when it deliberates the budget submission from the Executive in February 2016.

## **Risk Management**

60. In relation to the financial risks faced by the Council, there needs to be a balance between maintaining and improving key frontline service delivery and the sustainability of the financial standing of the Council.
61. The Medium Term Financial Plan currently indicates a significant deficit that is unsustainable in the medium term. Even using reserves to smooth the effect of expected reductions in funding, substantial budget savings need to be made to maintain a balanced budget. Using reserves in excess of the amounts referred in the budget strategy proposed would, in the absence of an increase in Government funding, present a real risk to maintaining basic levels of service and require significant savings to be identified in later years of the plan period.
62. The position on the Council's MTFP is recognised on the Council's Strategic Risk Register as the highest risk for the Council as such there is a continual review of the measures required to achieve a balanced budget.

## **Health and Safety**

63. There are no Health and Safety implications arising directly from the contents of this report. The budget does, however, include provision for ensuring the Council can meet its health and safety obligations as required.

## **Sustainability**

64. As with health and safety implications, there are no sustainability implications arising directly from this report but the proposed budget includes provision, where necessary, to progress issues of sustainability for the Council.

## **Community Safety**

65. There are no community safety issues arising directly from the contents of this report.

## **Equality and Diversity**

66. For all proposed savings proposals, an initial screening has been undertaken to assess at a high level the equalities impact against the recognised protected characteristics. This is provided for information at [Appendix G](#).



## **APPENDICES**

Appendix A	- Summary General Fund: Revised Estimates 2015/16 and draft Base Budget 2016/17
Appendix B	- Budget Variations 2015/16 – Revised Budget compared to Approved Budget
Appendix C	- Budget Variations – Approved Budget 2015/16 to draft Base Budget 2016/17
Appendix D	- Main Assumptions used to develop Base Budget 2016/17 and MTFP 2016/19
Appendix E	- Balances and Reserves
Appendix F(i)	- Proposed Budget Savings 2016/19
Appendix F(ii)	- Supporting Narrative for Proposed Budget Savings Proposals 2016/19
Appendix G	- Initial Screening of Budget Proposals for Equalities Impact 2016/17

## **LIST OF BACKGROUND PAPERS**

Papers held in Financial Services