

REPORT OF: MANAGEMENT TEAM

TO: SPECIAL BUDGET EXECUTIVE

DATES: 9th FEBRUARY 2016

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GENERAL FUND REVENUE BUDGET 2016/17

PURPOSE OF REPORT

1. The purpose of this report is to:-
 - a) inform the Executive of the details of the Local Government Finance Settlement (LGFS) for 2016/17 and the implications for the Council (subject to details of the final settlement being available);
 - b) consider the proposed General Fund Revenue budget for 2016/17;
 - c) enable the Executive to make a recommendation to Council at its meeting on 18th February 2016 on the level of Council Tax to be set for the financial year 2016/17; and
 - d) provide details of the Council's Medium Term Financial Plan for the period 2016/19 to highlight the significant budget deficit and the need to take further action to reduce expenditure to a sustainable level.

RECOMMENDATIONS

2. The Executive is recommended to:-
 - a) have regard to **Appendix A** to this report in respect of the robustness of Council's budget estimates and adequacy of reserves when considering recommendations (f) to (j) below;
 - b) note the proposal to maintain the General Fund Minimum Working Balance at £1.250m;
 - c) note that details of the final Local Government Finance Settlement for 2016/17 will be provided at the meeting should they be available;
 - d) note the projected outturn position in the current financial year;
 - e) in relation to Pendle Leisure Trust, subject to consideration of the savings proposals for 2016/17, agree to provide a grant to the Leisure Trust of £1,562,200 in 2016/17;

- f) make recommendations to the full Council on 18th February 2016 on the General Fund Budget Requirement for 2016/17 having regard to the recommended budget as set out in this report (and detailed at [Appendix I](#));
- g) subject to the Executive's consideration of the budget proposals in this report and confirmation by Government of the Council Tax Referendum Thresholds for 2016/17, to recommend to Council on 18th February a Band D Council Tax for the year of £245.16, an increase of 1.99% compared to the Council Tax in 2015/16;
- h) require each Service to operate within its budget for 2016/17, once approved, and that these budgets be cash limited and subject to regular monitoring and control;
- i) in view of the estimate of residual savings required for subsequent years as set out in the report, request Management Team to develop and bring forward an updated 3-year strategy comprising a package of savings options for consideration by the Budget Working Group early in the new financial year as part of the development of future year's budgets;
- j) linked to (i) above request that a further report be brought back to a future meeting of the Executive updating the Financial Strategy and Medium Term Financial Plan for 2017/20.
- k) provide delegated authority for the Financial Services Manager to submit the Council's response to the consultation on reforms of the New Homes Bonus regime, in consultation with the Executive Councillor for Finance and Devolution.

REASONS FOR RECOMMENDATIONS

- 3. To comply with statutory requirements to determine a balanced budget and council tax for the forthcoming financial year.

ISSUE

Background

- 4. The budget process is a key element of the Council's strategic planning process and, as part of the service and financial planning approach adopted by the Council, is a means of ensuring that resources are best placed to enable the Council to meet its objectives as set out in the Strategic Plan.
- 5. This report follows on from the First Budget Report considered by the Executive on 10th December 2015 which explained the main issues in the current budget round. Since that report, the Government published details of the Provisional Local Government Finance Settlement for 2016/17 just prior to Christmas.
- 6. This report provides an update of the most recent information in relation to the Provisional Settlement, the development of the budget and proposes a budget strategy for 2016/17 to enable the Executive to make a recommendation to Council on both the budget and Council Tax for the forthcoming financial year.
- 7. In view of the continuing and significant reduction in funding, the report also highlights the on-going requirement to maintain the Council's medium term financial strategy under review, with a focus on the identification and implementation of savings options, so that the Council's net revenue expenditure can be reduced to a level that is sustainable with the projected resources available to the Council.

Statement on the robustness of the Council's budget calculations and the adequacy of financial reserves

8. As indicated in the legal implications section below, Section 25 of the Local Government Act 2003 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 the adequacy of proposed financial reserves when determining its budget requirement under the Local Government Finance Act 1992.
9. A draft copy of the statement that will be reported to Council on 18th February is provided at [Appendix A](#) and the Executive is requested to consider this when making proposals in relation to the budget. The statement has been produced on the basis of the proposals set out in this report. It should be noted that, subject to Councillors' deliberations on the budget at Council on 18th February, it may be necessary for the report author to revise the statement so as to take account of the implications of any decisions taken at the Council meeting.
10. Given the projected reductions in core government funding over the medium-term and the high dependency on the use of council reserves to balance the Council's budget, Councillors are asked to consider these statements fully in the context of the proposed budget and Medium Term Financial Plan.
11. As part of the preparatory work in relation to the statement on the adequacy of the Council's financial reserves, work has been undertaken to review the level of the Council's General Fund Working Balance. This review is undertaken annually and the outcome of this work is that it is proposed to maintain the Minimum Working Balance at £1.250m. The rationale for the Minimum Working Balance is provided at [Appendix B](#). The Executive is asked to note in particular the uncertainty and volatility regarding business rates income and the impact this has on the proposed minimum working balance.

Provisional Local Government Finance Settlement 2016/17

12. Details of the provisional Local Government Finance Settlement (LGFS) for this Council were received in late December 2014. Following consideration of the first Budget Report, the Executive resolved, amongst other things, to give delegated authority to the report author in consultation with the Leader and Executive Councillor for Finance & Devolution to respond to the Government's consultation on the provisional Settlement. A copy of the response submitted is provided at [Appendix C](#).

Funding Allocations 2016/17

13. On the basis of the Provisional Settlement, Table 1 below summarises the estimate of funding for Pendle in 2016/17:

Table 1: Estimate of Funding for 2016/17

	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	3,595	3,666	3,774
Add Revenue Support Grant *1	3,904	3,013	2,210	1,707
Total	7,574	6,608	5,876	5,481
less Council Tax Support Grant	-1,236	-1,236	-1,236	-1,236
less Homelessness Grant	-97	-97	-97	-97
'Formula Grant' (equivalent)	6,241	5,275	4,543	4,148
Add New Homes Bonus	993	1,089	1,104	694
Estimate of Funding	7,234	6,364	5,647	4,842
Cumulative change since 2010/11	-45%	-52%	-57%	-63%

*1 – Includes Efficiency Support and Council Tax Freeze Grants receivable in 2015/16 which are now 'rolled' in to Revenue Support Grant from 2016/17

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

	£000	£000	£000	£000
Individual Authority Business Rates	7,730	7,689	7,840	8,072
Tariff Payment to Government	(4,060)	(4,094)	(4,174)	(4,298)
Estimate of Retained Business Rates	3,670	3,595	3,666	3,774

14. The estimate of Retained Business Rates shown above for 2016/17 is based on an assessment of the Council's share of the business rates collected. This is lower than the Government's assessment of the Council's share of business rates income (£3.726m) and reflects local knowledge of factors such as reliefs, exemptions and outstanding appeals.
15. As Table 1 indicates, the Council's funding in 2015/16 is estimated to be £7.57m. In comparison, the estimate of funding for 2016/17 is £6.6m, a reduction in funding of c£1m or 12.8%.
16. It is only possible to estimate the funding at this stage. Whilst the final Revenue Support Grant for 2016/17 will be guaranteed, the estimate of retained Business Rates is not; this is dependent on the amount of Business Rates income for the year. This is affected both by changes in the amount of Business Rates payable, itself subject to outstanding appeals and changes to the rating list (as new properties are built; existing properties demolished) along with the Council's collection of rates. There is, therefore, a degree of volatility in the estimate of retained business rates. Under the accounting arrangements applicable to business rates any in-year volatility during 2016/17 will impact on the budgeted income for subsequent years.
17. At the time of writing this report, the Government had not published details of the final Local Government Finance Settlement (LGFS) for 2016/17 and hence the above funding estimates remain subject to confirmation and could change. The final Settlement is expected in early February and should details be available in time for the meeting a verbal update will be provided.

Comparison to Medium Term Financial Plan 2016/17

18. Table 2 below provides a comparison of the updated estimate of funding for 2016/17 outlined above with the estimated amounts that were assumed in the Medium Term Financial Plan 2016/19 (and as reported to the Executive in December 2015):

Table 2: Comparison of Funding Estimates to Medium Term Financial Plan

	Funding 2016/17 £'000	Funding 2017/18 £'000	Funding 2018/19 £'000
Estimate of Funding (See Table 1 above)	6,364	5,647	4,842
Medium Term Financial Plan (December 2015)	6,328	5,511	4,791
Change in Funding Estimate	+36	+136	+51

Analysis of Change:	Revenue Support Grant	+82	+150	+452
	Retained Business Rates	-73	-107	-126
	New Homes Bonus	+27	+93	-275
	Total of Changes	+36	+136	+51

19. The changes in RSG reflect a lower rate of reduction than was assumed in the MTFP primarily owing to changes in the distribution methodology which benefits councils like Pendle, that have a comparatively lower council tax generating capacity. The movement on New Homes Bonus is covered below.

Efficiency Support Grant

20. The Council received Efficiency Support Grant (ESG) of £41k in the current year. This was paid to ensure that the Council's reduction in 'spending power' under the arrangements for the Finance Settlement for 2015/16 did not exceed a specified threshold. For 2016/17 the Government has 'rolled' the ESG payment in to the Revenue Support Grant.

New Homes Bonus

21. The Provisional Settlement included details of the proposed allocations of New Homes Bonus funding over a four year period to 2019/20. Per the Settlement the Council's allocations are as follows:

Table 3: New Homes Bonus Allocations

Financial Year	Settlement Allocation £'000	MTFP Allocation £'000	Variance £'000
2016/17	1,089	1,062	+27
2017/18	1,104	1,011	+93
2018/19	694	969	-275
2019/20	665	N/a	N/a

22. Following the Settlement, the DCLG published a consultation paper on potential reforms to the New Homes Bonus regime. The technical consultation paper entitled "New Homes Bonus: Sharpening the Incentive" outlines options for change including:
- Reducing the number of years for which the bonus is paid (currently 6) – Government preferred option is 4 years but is considering whether to move further and reduce this to 2 or 3 years;
 - Withholding new in-year allocations for each year where a local authority has not produced a Local Plan;
 - Reducing new in-year allocations payments to individual authorities where residential development is allowed on appeal;

- Only making payments for delivery above a baseline representing deadweight, i.e. that element of new homes built which would have been built regardless of the bonus incentive.

23. The consultation period closes on 10th March 2016 and delegation is sought for the report author, in consultation with the Executive Councillor for Finance and Devolution, to conclude and submit the Council's response. New Homes Bonus is a significant source of revenue funding and as in previous years, the allocation for 2016/17 will be used wholly in support of the provision of services.

Forecast General Fund Outturn 2015/16

24. At the meeting of the Executive on 10th December 2015, Councillors approved the Revised Estimates for 2015/16. At that time, it was estimated that the outturn position on the General Fund Revenue Budget would be £90k less than the original estimate for the year, a position that would result in an equivalent reduction in the contribution from the Budget Support Reserve in order to balance the budget. This was after making an additional contribution to reserves of £150k in support of business rates retention.

25. Monitoring of the Council's budget for the year has continued since the Revised Budget was agreed and Table 4 below provides a summary of the position at the end of December 2015. This indicates that, in comparison to the Approved Budget, further savings of £139k are expected for the year.

Table 4: Forecast Outturn 2015/16

	Approved Budget 2015/16 £'000	Forecast Outturn 2015/16 £'000	Variance £'000
Net Cost of Services	17,896	17,777	(119)
Corporate Income and Expenditure	(1,535)	(1,555)	(20)
Net Revenue Expenditure	16,362	16,222	(139)
Use of Specific Reserves	(1,643)	(1,643)	-
Net Expenditure	14,719	14,580	(139)
Budget Requirement	13,190	13,190	-
Contribution to/(from) Budget Strategy Reserves	(1,529)	(1,390)	139

26. The main variances contributing to this projected position are as follows:-

Net Cost of Services - Employee Costs (salaries) – net saving of £119k comprised of Environmental Services (-£63k), Housing, Health and Economic Development (-£37k), Planning, Building Control and Licensing (-£13k), and Neighbourhood Services (-£6k). These savings stem mainly from the management of vacant posts.

Corporate Income and Expenditure - Investment income – is projected to be £20k above budget reflecting the net effect of higher than forecast cash balances (mainly linked to delays in capital spending) offset partly by lower than budgeted rates of return given the low interest rate environment.

27. Work continues on the monitoring of the budget for the remainder of the financial year and any further variations will be reported as part of the regular Strategic Monitoring reports.

Development of Base Budget 2016/17

28. As outlined in the report to the Executive on 10th December 2015, the Base Budget for 2016/17 has been prepared on the basis of the Council's existing policies, strategic

objectives and related priorities. The main assumptions used in the development of the Budget Estimates were set out in the First Report and these remain largely unchanged.

29. Since the last report, work has continued to 'firm up' the Base Budget for 2016/17 (and future years). This latest position is now reflected in Table 5 below.

Table 5: Revised Net Expenditure 2016/17 (and Forecast to 2018/19)

	Base Budget 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000
Net Expenditure as at 10 th Dec 2015 *1	15,214	15,862	16,747
Technical Adj – Council Tax Freeze Grant *2	65	65	65
'Firming Up' Adjustments (Appendix D)	(58)	(127)	237
Savings Implemented (Appendix D)	0	0	0
Revised Net Expenditure	15,221	15,800	17,049

*1 – This excludes the use of reserves.

* 2 – Council Tax Freeze Grant received in 2015/16 has been rolled up in Revenue Support Grant for 2016/17 and has therefore been removed from Net Expenditure

Pendle Leisure Trust – Grant 2016/17

30. Pendle Leisure Trust Ltd currently receives a grant of £1.880m from the Council. As outlined in the December budget report, given the pressures on the Council's budget, the Trust was asked to consider savings options so as to deliver a reduction in grant funding of £318k. A number of proposals were developed by the Trust and these were considered by the Budget Working Group initially prior to being reported to the Executive in December.
31. Representatives of the Trust advise that it faces a budget deficit of £137k before any account is taken of the Council's requested savings target. Therefore to address this and deliver the Council's target reduction means the Trust has to identify total savings of £455k. The savings pro-forma provided as part of Appendix E (ii) reflects this. If the proposals are accepted in full by the Council the grant payable for 2016/17 will reduce from £1.880m to £1.562m.

The Financial Strategy 2016/19

32. The Provisional Local Government Finance Settlement for 2016/17 confirms a significant reduction in funding for the Council and this trend is forecast to continue based on the indicative allocations outlined over a four year period.
33. The Settlement is a four-year settlement. However the figures for 2017-2018 and beyond are part of an 'offer' to any council that chooses to take it up. This will be conditional on councils publishing an efficiency plan. However, the allocations set out over the 4 year period remain subject to confirmation each year as illustrated by the following extract reproduced from the Government's consultation document:

In practice, the final determination of the local government finance settlement for any given year cannot be made until calculations are completed taking account of the business rates multiplier, which is based on the Retail Price Index in September each year. The Government will also need to take account of future events such as the transfer of functions to local government, transfers of responsibility for functions between local authorities, mergers between authorities and any other unforeseen events. However, barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement, the Government expects these to be the amounts presented to Parliament each year.

34. There is a lack of detail presently relating to the 'offer' of a four year settlement and the required efficiency statement. Likewise the implications of not opting for the 4 year offer are not clear at this time. It is proposed to wait for clarification on these matters before concluding the Council's position. Whether the Council takes up the offer or not it is evident, from the provisional settlement, that it will continue to face funding constraints and this, combined with spending and demand pressures, will require further action to bring overall spending closer in line with the projected resources available.
35. To put this into some context, Table 6 below summarises the updated Medium Term Financial Plan for 2016/19. This is before the use of reserves and the implementation of savings and is provided to stress the importance of taking early action to deal with the underlying funding deficit:-

Table 6: Medium Term Financial Plan 2016/19

	Budget 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000
Net Revenue Expenditure (see table 5 above)	15,221	15,800	17,049
<i>Less:</i>			
Revenue Support Grant	(3,013)	(2,210)	(1,707)
Retained Business Rates (net of Tariff)	(3,595)	(3,666)	(3,774)
Retained Business Rates – Collection Fund Deficit	517	0	0
Council Tax Income	(5,681)	(5,823)	(5,969)
Council Tax Income – Collection Fund Surplus	(408)	0	0
Total Estimated Funding	(12,180)	(11,699)	(11,450)
Funding Shortfall	3,041	4,101	5,599
Estimated Taxbase	23,171.30	23,287.16	23,403.59
Estimated Council Tax (Band D)	245.16	250.04	255.02
% Council Tax Increase (Assumed)	1.99%	1.99%	1.99%

Council Tax Band D in current year is £240.38

36. Table 6 above outlines a growing budget deficit such that by 2018/19, the Council's on-going funding will be £11.45m compared with estimated net expenditure of £17.05m – a deficit of c£5.6m (*before* any use of reserves). This is not a sustainable position and action has to be taken to address this going forward.
37. The options for the Council are limited in the short-term to reducing expenditure and/or increasing income (from Council Tax, Fees and Charges). The scale of savings required means strategic decisions need to be taken in relation to key areas of council spending and income but these will take time to agree and implement (e.g. growing the business rate and council tax base, consideration of alternative service delivery models). Whilst it is possible to use balances and reserves to smooth the impact from year to year it must be recognised that these represent a finite resource which cannot be relied on indefinitely to balance the budget.
38. This latter point was highlighted in the feedback from the Corporate Peer Challenge team reported to Council in December. The Council underwent the challenge in November and in their report to the Council they commented as follows:

The council has a strong record of financial management and historically has had a good track record of managing within its budget. However, the council is within the top ten authorities nationally most affected by the reductions in Government funding over recent years and is currently facing some strong financial challenges which need to be addressed. The council had total reserves and balances

of around £12.5 million at 1 April 2015. Of this, less than £6m is uncommitted and therefore available to support the budget. Whilst there might be some flexibility regarding committed reserves, the council recognises the need to make savings in order to reduce its dependency on using reserves. Use of reserves will be £2.4m in the current year increasing to £5.3m in 2018/19 if the projected budget gap cannot be closed. The council does need to address this issue as a matter of great urgency and the Budget Working Group has been set up to consider financial options for the council.

To get the council on a sustainable footing difficult strategic decisions need to be taken in order to avoid an on-going reliance on using reserves. There is now an opportunity for the council to take a more financially sustainable approach by examining how better value for money may be obtained in areas of larger expenditure, including the service provision provided through major partnerships with Liberata and the Pendle Leisure Trust. To help with this decision making the council needs to use benchmarking as a tool to explore performance and reduce cost. Currently there is a culture of providing universal services to all localities within the borough but to help make difficult decisions the council will need to look at tailoring services to local need to a much greater extent.

Whilst there is a good understanding of the financial difficulties facing Pendle by members and senior officers, this needs to be accepted and addressed by all members, staff and partners. The council needs to be able to make the case for Pendle particularly in forums that control resources such as the likely to be established Combined Authority for Lancashire.

The council needs to have a more realistic acceptance of the future funding of the sector and that in future the council's revenue base will be much more dependent upon council tax, business rates and any commercially generated income plus incentives for development such as New Homes Bonus (if they remain). There needs to be a shift in emphasis within the council's culture from significant reliance on grants to thinking about investment and development. If a more strategic approach to investment and development was taken alongside an agreement for a shared aspirational vision for the whole of Pendle the council is more likely to have a solid footing from which to move forward.

39. The most immediate issue is the budget deficit in 2016/17. The narrative below deals with this but Councillors are asked to consider the proposed budget in the context of the overall Medium Term Financial Plan position as shown above.

Budget Savings, Charges and Growth Proposals 2016/17

40. An initial analysis of savings/charging proposals for 2016/17 was presented to the Executive in December. These had been considered earlier in the year by the cross-party Budget Working Group. Agreement on a number of proposals was obtained earlier in the year and these were formally approved by Council in October (e.g. Staff savings, removal of Town and Parish Council grants). Items agreed in October have been built in to the MTFP figures shown in table 6 above.
41. Agreement has also been given for the Council to participate in the Lancashire Business Rates Pool in 2016/17. The DCLG has accepted the Lancashire Pool bid for 2016/17 and the 'window' for participating authorities to opt out has now closed. Consequently, the Council expects to save the levy that would otherwise be due to Government leading to a net saving of c£200k. The 'downside' risk is that the Council forfeits any entitlement to the safety net protection and would have to make good any shortfall in business rate income during 2016/17 from its own resources. Given this, for the first year of the 'pool', an amount of £250k has been added to the minimum working balance to mitigate the risk and this will be reviewed on an annual basis. With the move towards 100% retention of business rates by 2020 the duration of the Pool is expected to be limited.
42. The remaining proposals have subsequently been reviewed and a list is provided at [Appendix E \(i\)](#) with additional analysis of savings by Pendle Leisure Trust provided at [Appendix E \(ii\)](#); these total £1.117m in 2016/17 with 'indicative' proposals also listed for the balance of the current medium-term financial plan period.

43. A narrative supporting each of the savings proposals is provided at [Appendix F](#). The Base Budget submission for 2016/17 contains no provision for budget growth.

Council Tax

44. From a financial planning perspective the position on Council Tax for 2016/17 is unchanged from that reported to the Executive in December. The provisional local government finance settlement contained no proposals for Council Tax Freeze Grant. In fact, the assumptions made by DCLG in respect of each Council's projected spending power assume that Council Tax will increase by 1.75% per annum. The referendum threshold for council tax increases remains unchanged for 2016/17. Any proposal to increase Council Tax by 2% or more would require the Council to hold a referendum and obtain public support for such an increase.
45. Given the financial position facing the Council Management Team's recommendation is that the Council should increase Council Tax by 1.99% for 2016/17. If agreed this this would result in an additional charge for Pendle Council services only of £4.78 a year or 9p per week for Band D Properties (for Band A properties, it would be £3.19 or 6p per week).
46. The level of Council Tax is a matter for the Council to determine and the Executive may wish to consider and recommend to Council an alternative level of Council Tax. To assist Councillors in their deliberations on this matter, [Appendix G](#) shows a range of Council Tax Requirements and associated Council Tax levels, combined with the impact on the budget, at different tax levels.
47. The above analysis only considers the council tax charge made by the Borough Council. Council Tax charges for the other authorities (Lancashire County Council, Police and Crime Commissioner and Fire Authority) that precept upon the Council will be provided as part of the Council Tax resolution to Council on 18th February.

Reserves and Balances

48. Details of the Council's Reserves and Balances were provided in the December budget report. An updated analysis of Balances and Reserves is provided at [Appendix H](#). A strategy for the use of Balances and Reserves was also set out in the December Report and this remains largely unchanged. The position proposed following the Provisional Settlement, is:
- A total of £3.65m will be used from the Budget Support Reserves over the period to 2018/19. This, combined with the estimated use of the Budget Support Reserve in 2015/16, means a total of £5m will be taken from the reserve to support the budget in the period to 2018/19;
 - 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 MTFP currently assumes the use of £950k of such reserves in the period 2016/17 to 2018/19, and
 - the Minimum Working Balance will remain at £1.250m for 2016/17 and be subject to annual review to assess the adequacy of this (as will the £500k Bond Reserve).

Draft Budget for 2016/17 - Management Team Recommendation

49. In recognition of the substantial budget deficit and the need for early action to reduce the Council's net expenditure to a sustainable level, Management Team recommends the implementation of all the savings identified at Appendix E (i) in 2016/17. This, combined with the proposed increase in Council Tax and using £1.924m from Reserves, forms the basis of the Management Team Budget proposal which is summarised below and shown in detail at [Appendix I](#):

Table 7: Management Team - Recommended Budget 2016/17

	Base Budget 2016/17 £000
Revised Net Expenditure 2016/17 (per Table 6 above)	15,221
Recommended Savings (see Appendix E(i))	(1,117)
Net Revenue Expenditure	14,104
Use of Reserves (see Appendix H)	(1,924)
Collection Fund (C.Tax and Business Rates) net deficit	109
Estimate of Government Funding (as per Table 1 above)	(6,608)
Recommended Council Tax Requirement	5,681

Updated Medium Term Financial Plan 2016/19

50. The Medium Term Financial Plan has been updated adopting the above budget proposal from Management Team for 2016/17 and is shown in Table 8 below:-

Table 8: Medium Term Financial Plan 2016/19 (assuming Management Team's Budget)

	Management Team Budget 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000
Funding Deficit (see Table 6)	3,041	4,101	5,599
Estimated Use of Reserves	(1,924)	(1,340)	(1,335)
Previous Year's In-Year Savings	(1,117)	(1,117)	(2,761)
In Year Savings Required	-	1,644	1,503

51. As the table indicates, whilst there is a balanced budget in 2016/17, there remains a significant budget deficit in each of the following 2 years **with savings of £3.15m required**. The implications of this are considered in more detail below.

What if less savings/income generation proposals are implemented?

52. The Executive acknowledges 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 9 below which sets out a scenario under which savings of only £750k per annum are implemented over the next 2 years.

Table 9: Achieving Savings of only £750k per annum in 2016/17 and 2017/18

	Budget 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000
Funding Deficit (per Table 6)	3,041	4,101	5,599
Estimated use of Reserves (Committed)	(749)	(100)	(100)
Estimated use of Reserves (Non-committed)	(1,542)	(2,501)	(786)
Savings implemented	(750)	(750)	(1,500)
In Year Savings Required	-	750	3,213

Impact on Non-Committed Reserves

	2016/17 £000	2017/18 £000	2018/19 £000
Opening Balance of Non –Committed Reserves (see Appendix H)	4,179	2,887	586
Use of reserves per above	(1,542)	(2,501)	(786)
Assumed in year addition to reserves (Hsg Pendle)	250	200	200
Total	2,887	586	0

53. As the table above illustrates, the implementation of lower savings in the first two years requires the shortfall to be made up from non-committed reserves. Using these reserves at a rate faster than assumed in the plan means that by 2018/19 there is only £0.8m available to support the budget leaving a savings requirement of £3.2m. To implement savings on this scale in one year would represent a significant risk and challenge to the Council. Therefore actions need to be planned and considered in advance if the Council is to manage this transition to a lower cost base effectively.

Identifying c£4.26m Savings up to 2018/19

54. 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
55. 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 was agreed at the Executive meeting in December to continue with the Budget Working Group in its current form. It is expected that the Group will meet after the budget for next year has been finalised and commence the detailed work on the development of future saving proposals. The outputs from this work will be reported to the Executive.
56. As indicated above, the residual level of savings required over the next 3 years is c£4.26m. If the budget proposed by Management Team is implemented in full for 2016/17 the residual savings required are estimated at £3.15m over the following two years. This does assume the use of reserves as set out above and increases in council tax of 1.99% per annum.
57. The Executive has previously resolved that Management Team should develop a 3-year strategy comprising a package of savings options acknowledging that this, for example, would involve strategic reviews of the delivery of all Council functions. Details of outline proposals for 2016/17 onwards were reported to the Executive in December 2015 and are shown at [Appendix E \(i\)](#) for information. Further work will be undertaken on the development of these proposals in conjunction with the Budget Working Group.
58. In addition a report on the updated financial strategy to 2019/20 will be brought forward for consideration by the Executive early in the new financial year.

Capital Programme 2016/17

59. A report elsewhere on the Agenda for this meeting provides more details of the proposed Capital Programme for 2016/17.

Estimated Collection Fund Surplus 2015/16

60. The Collection Fund Account is required to account for precepts and the income collected from council tax and business ratepayers by the Council acting as the Billing Authority. As budgets and associated precepts represent estimates at a point in time variations can occur which result in either actual surpluses or deficits. These must be shared between the major precepting bodies (County, District, Police and Fire Authority).
61. In the current year the Collection Fund (Council Tax) is estimated to make a surplus £2.453m of which £408k is attributable to Pendle Borough Council and will support the Council's budget requirement in 2016/17. This contrasts sharply with the Collection Fund (Business Rates) which is projected to have a deficit of £1.293m as at 31st March 2016. The deficit has to be recovered in 2016/17 and Pendle's contribution to this is £517k. This cost has also been factored in to the Council's budget requirement for next year.

Council Tax Base 2016/17

62. The Council Tax Base has been calculated in accordance with the relevant regulations at 23,171.3 Band D equivalent dwellings and was approved by the Executive at its meeting on 10th December 2015.

Group Proposals

63. At this meeting, the Executive is requested to make recommendations to the Council on the Budget and associated council tax for 2016/17. Each Group will also have an opportunity to present alternative budget proposals for consideration by Council.
64. It should be noted that each Group has been reminded of the statutory obligation of the Financial Services Manager to make a statement on the robustness of the Council's budget calculations in support of the proposed budget. In view of this, Groups have been encouraged to discuss, in confidence, their budget proposals with the report author prior to the meeting of Council on 18th February 2016.

Budget Consultation

65. The following activities have been undertaken to raise awareness and seek feedback on the Council's budget. These include:-
- Information to staff and Unions on the proposed changes to the workforce;
 - Media briefing and press releases on the Council's financial challenge;
 - Reports to each of the Area Committee's inviting feedback on their respective budget proposals and options for savings; the resolutions of each Area Committee are provided at [Appendix J](#) and the Executive is requested to note these when deliberating on the recommended budget;
 - Information regarding the budget reports was sent to the East Lancashire Chamber of Commerce following the December meeting of the Executive. Should there be any feedback prior to this meeting a verbal update will be provided to Councillors.

Precepts, Printing Council Tax Bills etc.

66. The Major Preceptors will all be meeting during February 2016 to set their budgets and council tax. The dates of the meetings are as follows:-

Major Preceptor	Date of Meeting
Lancashire County Council	11 th February
Lancashire Fire and Rescue Authority	15 th February
Lancashire Police and Crime Commissioner	TBD

67. The council tax and precepts arising from the above meetings will be reported to the meeting of Council on 18th February when Council will be asked to approve the budget and council tax for Pendle. Details of Town and Parish Council Precepts for 2016/17 have been requested by 5th February and a summary listing of those submitted as at the time of writing this report is provided in [Appendix K](#).
68. The scheduled date for council tax bills and accompanying leaflets to be printed is late February 2016 to enable the bills to be issued by mid-March at the latest. Should it not be possible for the main billing process to start by early March, it would not be possible to issue bills in sufficient time to ensure the first Direct Debit installments are collected on 1st April. Hence, it is important that Council Tax is set at the meeting of Council on 18th February.

IMPLICATIONS

Policy

69. 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 cost 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

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

Legal

71. The Council must calculate and approve its Council Tax Requirement for the forthcoming financial year in accordance with s32 and s43 of the Local Government Finance Act 1992 (LGFA 1992), annually
72. Section 25 of the Local Government Act 2003 also requires the officer having responsibility for the administration of the Council's financial affairs (Financial Services Manager), 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 is considered in [Appendix A](#) and will be reported to Council on 18th February 2016 when the budget is considered for approval.

Risk Management

73. When considering the risks and risk management measures associated with the budget for next year, Councillors should note the draft statement on the robustness of the budget estimates and the adequacy of financial reserves shown at [Appendix A](#).
74. The development of the Council's budget is a complex task and is based on estimates of future income and expenditure. These estimates are made on the basis of the best information available at the time and can include a range of assumptions on factors like pay inflation, interest rates and demand for services. .
75. Whilst efforts are made to ensure these estimates are robust, Councillors should be aware there is a risk that both internal and external factors may have an impact on budgetary performance. To help mitigate this the Council has in place various mechanisms including for example, financial and contract procedure rules, budgetary control and monitoring arrangements to ensure that it can take pro-active action should it be necessary.
76. Whilst the budget recommended for 2016/17 is balanced, the medium-term financial plan 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 any 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.
77. The recommended budget for 2016/17 includes a number of budget reduction proposals. These proposals have been identified through the service and financial planning process. Any savings agreed must also be implemented effectively and on time and progress on this will be monitored throughout the year. The adopted Financial Strategy retains the three key themes of 'growing', 'charging' and 'saving'. The report outlines the requirement for further substantial savings to be made and the importance of starting work on these now to ensure solutions can be implemented to achieve a balanced budget over the medium term.
78. 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

79. 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.

Climate Change

80. There are no climate change or sustainability implications arising directly from this report but the proposed budget includes provision, where necessary, to progress issues of sustainability for the Council contained within the approved Climate Change Action Plan.

Community Safety

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

Equality and Diversity

82. In compliance with the Council's duties on equality and diversity, various impact assessments have been undertaken on the budget issues recommended in this report.

APPENDICES

Appendix A	Draft Statement from the Chief Finance Officer on the Robustness of Estimates and Adequacy of the Council's Reserves and Balances
Appendix B	Review of the Council's Minimum Working Balance
Appendix C	Response to Consultation on the Local Government Finance Settlement 2016/17
Appendix D	'Firming Up' Adjustments
Appendix E (i)	Revenue Budget Savings Proposals 2016/17
Appendix E (ii)	Leisure Trust - Revenue Budget Savings Proposals 2016/17
Appendix F	Narrative Supporting Revenue Budget Savings Proposals 2016/17
Appendix G	Council Tax Exemplifications
Appendix H	Reserves and Balances
Appendix I	General Fund Revenue Budget 2016/17 – Management Team Recommendation
Appendix J	Responses to Area Committee Consultation
Appendix K	Town and Parish Council Precepts 2016/17

LIST OF BACKGROUND PAPERS

First Budget Report – Presented to the Executive on 10th December 2015
Provisional Local Government Finance Settlement 2016/17