

**REPORT OF: MANAGEMENT TEAM**

**TO: EXECUTIVE**

**DATES: 8<sup>th</sup> FEBRUARY 2017**

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## **GENERAL FUND REVENUE BUDGET 2017/18**

### **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 2017/18 and the implications for the Council (subject to details of the final settlement being available);
- b) consider the proposed General Fund Revenue budget and other related matters for 2017/18;
- c) enable the Executive to make a recommendation to Council at its meeting on 23<sup>rd</sup> February 2017 on the level of Council Tax to be set for the financial year 2017/18; and
- d) provide details of the Council's Medium Term Financial Plan for the period 2017/20 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 (e) to (l) below;
- b) note the proposal to maintain the General Fund Minimum Working Balance at £1.0m;
- c) note that details of the final Local Government Finance Settlement for 2017/18 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 residual saving proposal for 2017/18, agree to provide a grant to the Trust of £1,426,200 in 2017/18;

- f) make recommendations to the full Council on 23<sup>rd</sup> February 2017 on the General Fund Budget Requirement for 2017/18 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 2017/18, to recommend to Council on 23<sup>rd</sup> February, a Band D council tax for the year of £250.16, being an increase of £5 (2.04%) on the level of council tax in 2016/17;
- h) require each Service to operate within its budget for 2017/18, once approved, and that these budgets be cash limited and subject to regular monitoring and control;
- i) note the consultation feedback from clubs in respect of introducing pitch fees for junior football pitches and agree that the new charges be implemented from 1<sup>st</sup> April 2017 (paragraphs 53 to 55 refer);
- j) endorse the proposals for recharging the costs of elections to local town and parish councils (paragraphs 56 to 59 refer);
- k) grant delegated authority to the Financial Services Manager, in consultation with the Leader and Executive Member for Finance, to determine the council's preferred option for payment of employer contributions to the Lancashire Pension Fund over the period 2017/18 to 2019/20 (paragraphs 60 to 66 refer);
- l) 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;
- m) linked to (l) 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 2018/21.

## **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 8th December 2016 which explained the main issues in the current budget round. Since that report, the Government has published details of the Provisional Local Government Finance Settlement for 2017/18.
- 6. This report provides an update of the most recent information in relation to the settlement, the development of the budget and proposes a budget strategy for 2017/18 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 ongoing 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 23rd February is provided at [Appendix A](#) and the Executive should have regard to 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 later this month, it may be necessary for the statement to be revised to take account of the decisions taken at the Council meeting.
10. Given the ongoing 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 a proposal to maintain a Minimum Working Balance of £1.0m. The rationale for this is provided at [Appendix B](#).

### **Local Government Finance Settlement 2017/18**

12. The provisional local government finance settlement (LGFS) was published after the Executive had considered the initial budget report in December. In anticipation of this, the Executive granted delegated authority to the report author in consultation with the Executive Councillor for Finance to respond to the Government's consultation on the settlement. A copy of the response submitted on behalf of the Council is provided at [Appendix C](#).
13. Whilst the Council's share of revenue support grant over the period 2017/18 to 2019/20 is consistent with Government's 4-year funding offer the main changes impacting on the Council's financial position result from changes to the New Homes Bonus regime with effect from next year. More information on this is provided below.

### **Funding Allocations 2017/18**

14. On the basis of the Provisional Settlement, Table 1 below summarises the estimate of funding for Pendle in 2017/18:

**Table 1: Estimate of Funding for 2017/18**

	Actual Funding 2016/17 £000	Estimated Funding 2017/18 £000	Estimated Funding 2018/19 £000	Estimated Funding 2019/20 £000
Estimate of Retained Business Rates	3,595	3,552	3,657	3,774
<b>Add</b> Revenue Support Grant *1	3,013	2,210	1,707	1,145
<b>Total</b>	<b>6,608</b>	<b>5,762</b>	<b>5,364</b>	<b>4,919</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>5,275</b>	<b>4,429</b>	<b>4,031</b>	<b>3,586</b>
<b>Add</b> New Homes Bonus	1,089	995	525	326
<b>Estimate of Funding</b>	<b>6,364</b>	<b>5,424</b>	<b>4,556</b>	<b>3,912</b>
<b>Cumulative change since 2010/11</b>	<b>-52%</b>	<b>-59%</b>	<b>-65%</b>	<b>-70%</b>

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

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

	£000	£000	£000	£000
<i>Individual Authority Business Rates</i>	7,689	6,800	7,001	7,224
<i>Tariff Payment to Government</i>	(4,094)	(3,248)	(3,344)	(3,450)
<b>Estimate of Retained Business Rates</b>	<b>3,595</b>	<b>3,552</b>	<b>3,657</b>	<b>3,774</b>

15. The estimate of Retained Business Rates shown above for 2017/18 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 (£3.802m) and reflects local knowledge of factors such as reliefs, exemptions and outstanding appeals.
16. As Table 1 indicates, the Council's funding in 2016/17 is estimated to be £6.608m. In comparison, the estimate of funding for 2017/18 is £5.762m, a reduction in funding of £0.85m or 12.8%.
17. It is only possible to estimate the funding at this stage. Whilst revenue support grant for 2017/18 is 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 2017/18 will impact on the budgeted income for subsequent years.
18. At the time of writing this report, the Government had not published details of the final local government finance settlement for 2017/18 and hence the estimates of funding shown above are not yet confirmed and could change. Details of the final settlement are expected in early February and if this is the case a verbal update will be provided at the meeting.

**Comparison to Medium Term Financial Plan 2017/18**

19. Table 2 below provides a comparison of the updated estimate of funding for 2017/18 outlined above with the estimated amounts that were assumed in the Medium Term Financial Plan 2017/20 (and as reported to the Executive in December):

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

	<b>Funding 2017/18 £'000</b>	<b>Funding 2018/19 £'000</b>	<b>Funding 2019/20 £'000</b>
Estimate of Funding (See Table 1 above)	5,424	4,556	3,912
Medium Term Financial Plan (December 2016)	5,457	4,646	4,170
<b>Change in Funding Estimate</b>	<b>-33</b>	<b>-90</b>	<b>-258</b>
<b>Analysis of Change:</b>			
Revenue Support Grant	0	0	0
Retained Business Rates	76	79	81
New Homes Bonus	-109	-169	-339
<b>Total of Changes</b>	<b>-33</b>	<b>-90</b>	<b>-258</b>

20. No change in RSG reflects the Council's acceptance of the government's four-year funding offer. The movement on New Homes Bonus and Business Rates is covered below.

### **New Homes Bonus (NHB)**

21. The local government finance settlement contained details of the government's response to the consultation on proposed changes to the New Homes Bonus scheme. The consultation closed in March 2016 with the government's aim being to 'sharpen the incentive'. In its response in December the government outlined two major changes to the scheme both of which will apply from 2017/18.
22. The changes consist of the following:
- Shortening the period for which each tranche of NHB is paid from 6 years to 5 years (for 17/18 only) and thereafter to four years from 2018/19 on;
  - The introduction of a % baseline below which no NHB will be paid on additional units of housing – the baseline has been set nationally at 0.4%; the effect of this for Pendle is that from next year, we will only receive NHB where the annual increase in units of housing exceeds 123 Band D equivalent properties. Prior to this change the Council would have received NHB on all additional units. Now it will only receive NHB on those additional units above the baseline.
23. The impact on the Council's share of NHB as a result of the above changes is both significant and adverse as illustrated below in table 3 which compares our in-year entitlement to NHB under the current and revised methodologies. Entitlement to NHB in 2017/18 is determined by the change in housing stock measured between October 2015 and October 2016.

<b><i>Table 3 - Calculation of NHB for 2017/18 under 'current' and 'revised' scheme</i></b>	<b>'Current' NHB Scheme</b>	<b>'Revised' NHB Scheme</b>
Change in Stock:		
• increase in number of dwellings	111.0	111.0
• reduction in the number of empty homes	131.0	131.0
Total additional units (Oct 15 to Oct 16)	242.0	242.0
Converted to number of Band D equivalents	192.3	192.3
Deduct baseline requirement at 0.40%	N/a	(122.6)
Residual number of Band D units on which NHB is paid	192.3	69.7
Amount of NHB per Band D additional unit (£)	£1,529.56	£1,529.56
Gross amount of NHB (£)	£294,134	£106,610
Pendle's share at 80% (20% is paid to the County Council)	£235,307	£85,288
Number of years for which this is paid	6	4
<b>Total entitlement in respect of 2017/18 tranche of NHB</b>	<b>£1,411,842</b>	<b>£341,152</b>

24. The table above shows the impact of one year in isolation, i.e. 2017/18. However, the cumulative reduction in income from New Homes Bonus is greater. This is because allocations of NHB granted to the Council in respect of earlier years will now stop sooner than expected as shown below:

Year of NHB allocation	Annual amount £'000	Final year of payment	
		(was)	(now)
2012/13	92	2017/18	2016/17
2013/14	179	2018/19	2017/18
2014/15	341	2019/20	2017/18
2015/16	238	2020/21	2018/19
2016/17	137	2021/22	2019/20

25. The changes in NHB stem from the government's policy objective of diverting money from NHB to help fund the costs of adult social care. This has resulted in the transfer nationally of £241m from the NHB 'pot' to upper-tier authorities with social care responsibilities. However, in some cases upper-tier councils are losing more in their share of NHB than they are gaining via adult social care grant. Our response to the provisional settlement expressed concerns at these changes in NHB and questioned the rationale for them.

### **Business Rates (NNDR)**

26. The Council has to estimate the level of business rates income each year. For 2017/18 this is made more difficult by the following factors:

- the impact of the 2017 NNDR revaluation;
- transitional arrangements to mitigate the impact of the above on businesses;
- adjustment of the Council's tariff (payment we make to government) to mitigate the impact of revaluation on the council;
- changes to thresholds for small business rate reliefs, and changes to other reliefs.

27. The Executive considered a report on the 2017 revaluation at its meeting in November. This highlighted a reduction overall in the Council's gross rateable value at that time of c£1.25m. Various updates have been made to the draft 2017 rating list by the Valuation Office Agency such that the reduction is now estimated at c£1m. However, in addition to this the national rating multipliers (i.e. pence in the £) have also been reduced for 2017/18. The multipliers for next year with comparables for the current year are shown below:

- Small business multiplier 2017/18                      46.6p (48.4p)
- Standard multiplier 2017/18                              47.9p (49.7p)

28. To compensate the council for the loss of income resulting from revaluation, DCLG has reduced the council's annual tariff payment we make to government under the business rates scheme. In the current year the tariff is £4.094m and this has been reduced to £3.248m for 2017/18. Thereafter it would ordinarily increase in line with inflation but DCLG do propose to reset this adjustment based on updated information in subsequent years. The tariff is therefore subject to further change going forward.

29. The estimate of business rates income for next year as shown in table 1 above represents our best estimate on current information. It results in the Council being subject to a levy payment to government. However, this is avoided by virtue of our membership of the Lancashire business rates pool. The downside risk of being in the pool still remains however, i.e. there is no government protection (safety net) in the event our share of rate income falls below a specified threshold (£3.517m). Our rating submission to government as at the end of January estimates our retained income in next year will be £4.23m inclusive of Section 31 grant monies which compensate us for income foregone as a result of government policy decisions on certain business rate reliefs.



## Forecast General Fund Outturn 2016/17

30. At the meeting of the Executive on 8th December 2016, Councillors approved the Revised Estimates for 2016/17. At that time, it was estimated that the outturn position on the General Fund Revenue Budget would be £102k 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.
31. 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 2016. This indicates that, in comparison to the Approved Budget, further savings of £50k are projected for the year.

**Table 4: Forecast Outturn 2016/17**

	<b>Approved Budget 2016/17 £'000</b>	<b>Forecast Outturn 2016/17 £'000</b>	<b>Variance £'000</b>
Net Cost of Services	16,798	16,744	(54)
Corporate Income and Expenditure	(2,144)	(2,144)	-
<b>Net Revenue Expenditure</b>	<b>14,654</b>	<b>14,600</b>	<b>(54)</b>
Use of Specific Reserves	(2,798)	(2,794)	4
<b>Net Expenditure</b>	<b>11,856</b>	<b>11,806</b>	<b>(50)</b>
Budget Requirement	12,180	12,180	-
<b>Contribution to / (from) Budget Support Reserve</b>	<b>324</b>	<b>374</b>	<b>50</b>

32. The main variances contributing to this projected position are as follows:-
- Net Cost of Services* – additional net saving of £23k on employee expenses mainly linked to the management of vacant posts together with additional income from planning fees of £31k. The £4k reduction in the use of reserves reflects a lower contribution required to match less than budgeted expenditure on modern apprentices.
33. The contribution shown above for the Budget Support Reserve reflects a net contribution to the reserve of £374k. This position is skewed by the decision taken earlier this year to transfer £1.75m in **to** this reserve from other reserves to ensure the balance on the reserve could meet the required contributions assumed in the medium-term financial plan to 2019/20. Offset against this is a contribution **from** the reserve estimated at £1.376m to support the revenue budget in the current year.
34. 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 the Base Budget for 2017/18

35. As outlined in the report to the Executive on 8th December 2016, the Base Budget for 2017/18 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 save for changes to income from the New Homes Bonus.
36. Since the last report, work has continued to 'firm up' the Base Budget for 2017/18 (and future years). The latest position is now shown in Table 5 below.

**Table 5: Revised Net Expenditure 2017/18 (and Forecast to 2019/20)**

	Base Budget 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000
Net Expenditure as at 8th Dec 2016 *1	14,303	15,763	16,381
'Firming Up' Adjustments ( <a href="#">Appendix D</a> )	(55)	(36)	88
Savings Implemented ( <a href="#">Appendix D</a> )	(624)	(644)	(662)
<b>Revised Net Expenditure</b>	<b>13,624</b>	<b>15,083</b>	<b>15,807</b>

\*1 – This excludes the use of reserves.

### **Pendle Leisure Trust – Grant 2017/18**

37. In the current year Pendle Leisure Trust Ltd received a management fee of £1.576m from the Council plus a one-off contribution of £60,000 to help sustain the Blues Festival in 2016/17. As part of the normal budget development process, the Trust was asked to identify savings options so as to deliver a reduction in grant funding for 2017/18 of at least £150k. A number of proposals were developed by the Trust and these were discussed with senior representatives from the Trust in November prior to being considered by the Budget Working Group and Executive in the same month.
38. Since then, one of the proposals has been formally agreed by Council. This is the proposal to refinance outstanding lease rentals on the spa/gym extension at Nelson Wavelengths. To enable the Trust to complete this Council agreed in December to advance a loan of £1.1m to the Trust. The loan advance was made in January. This initiative generates an annual saving on the management fee paid by the Council of £110k.
39. To achieve the balance of saving required in 2017/18 the Trust has entered in to an alternative arrangement with a third party for the operation and management of Marsden golf course. This reduces the management fee required by a further £40,000 next year. Whilst the savings pro-forma provided as part of [Appendix E](#) includes this, in effect the change in operations has been made by the Trust and in effect is a confirmed saving to the Council. Taking this in to account, and subject to approval, the management fee payable to the Trust in 2017/18 will be £1.426m.

### **The Financial Strategy 2017/20**

40. The local government finance settlement for 2017/18 represents year 2 of the government's four-year funding offer. The Council accepted the offer in October and submitted the requisite Efficiency Plan. The plan remains an active document and is accessible via the Council's website [here](#).
41. Whilst there is greater certainty regarding the level of Revenue Support Grant over the 4 year period there has been a significant reduction in funding for New Homes Bonus as outlined above.
42. This combined with the proposed reforms of the business rates retention scheme introduces additional funding uncertainty as the government moves towards 100% local retention of business rates by the end of this Parliament.
43. Whilst changes to the business rates retention scheme are planned the detail and design of the revised arrangements is not known at this time and hence it is difficult to predict the impact on Pendle at this time. However, it is evident, from the Settlement that the Council continues 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.



44. To put this into some context, Table 6 below summarises the updated Medium Term Financial Plan for 2017/20. 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 2017/20**

	<b>Budget 2017/18 £000</b>	<b>Forecast 2018/19 £000</b>	<b>Forecast 2019/20 £000</b>
<b>Net Revenue Expenditure (see table 5 above)</b>	<b>13,624</b>	<b>15,083</b>	<b>15,807</b>
<u>Less:</u>			
Revenue Support Grant	(2,210)	(1,707)	(1,145)
Retained Business Rates (net of Tariff)	(3,552)	(3,657)	(3,774)
Retained Business Rates – Collection Fund Deficit	419	0	0
Council Tax Income	(5,841)	(6,002)	(6,166)
Council Tax Income – Collection Fund Surplus	(365)	(100)	0
<b>Total Estimated Funding</b>	<b>(11,549)</b>	<b>(11,466)</b>	<b>(11,085)</b>
<b>Funding Shortfall (before use of reserves)</b>	<b>2,075</b>	<b>3,617</b>	<b>4,722</b>
Estimated Taxbase	23,348.3	23,523.41	23,699.84
Estimated Council Tax (Band D)	250.16	255.16	260.16
<b>% Council Tax Increase (Assumed)</b>	<b>2.04%</b>	<b>2.00%</b>	<b>1.96%</b>

*Council Tax Band D in current year is £245.16*

45. Table 6 above outlines a growing budget deficit such that by 2019/20, the Council's on-going funding will be £11.1m compared with estimated net expenditure of £15.8m – a deficit of c£4.7m (before any use of reserves). Clearly, this is not a sustainable position and action must be taken to address this.
46. In the short-term, the options available to the Council are limited 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 and one that cannot be relied on indefinitely to balance the budget.
47. This latter point was highlighted in the feedback from the Corporate Peer Challenge team reported to Council in December. The Council underwent the initial challenge in November 2015 and when reporting on their follow-up visit in November 2016 the team commented as follows:

*The Council has worked hard to try to address the financial challenges facing the authority. The budget outturn for 2015/16 was an underspend of c£320k, drawing on reserves. The council's budget for 2016/17 is £12.1m, assuming the delivery of savings of £837k, and it is currently projecting an end of year underspend with an intention to drawn on reserves again this year.*

*The Council has developed a clear financial strategy of 'Grow', 'Charge' and 'Save', and has reviewed key contract areas. A cross-party Budget Working Group is tasked with identifying options for savings for 2017/18 as well as the remainder of the Medium term Financial Plan period to 2019/20, which has identified a savings requirement of £4.8m over the 3 year period.*

*Helpful progress has been made, with c£600k of savings for 2017/18 approved at Council in October 2016 and options for a further £1.2m being developed. The council has also submitted its Efficiency Plan and in doing so has secured a four year financial settlement from government.*

*However, despite the good work already undertaken on planning for the 2017/18 budget, the scale of the financial challenge remains significant and the council will need to be bold to support planning for 2018/19 – when the budget gap is larger – and the financial years beyond.*

*We heard that the financial position is understood by Members and staff, and we saw some evidence of this from those we spoke to. However, there is a need to widen and deepen the understanding of the financial challenge among non-executive members. This will enable the council to harness the skills of all members and secure the necessary member buy-in to a) the need for budget savings and working differently and b) the potential solutions to balance the budget. This is essential to drive the pace of change needed to respond effectively to the budget challenge.*

48. The Peer Review team did also suggest in their feedback the inclusion of a fourth theme to our financial strategy, namely that of 'STOP'. This stemmed from their view that we could no longer sustain all our objectives and should determine what we could stop doing to help align service spending with the reduced level of funding available.
49. The most immediate issue is the budget deficit in 2017/18. 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 and have regard to the feedback from the Peer Review team.

### **Budget Savings, Charges and Growth Proposals 2017/18**

50. An initial analysis of savings/charging proposals for 2017/18 was presented to the Executive in September. These had been considered earlier in the year by the cross-party Budget Working Group. Agreement on a number of proposals was obtained and these were formally approved by Council in October. Following this a second tranche of saving proposals was considered by Council in December and approved. These confirmed saving proposals have been built in to the MTFP figures shown in table 6 above. These savings total £1.22m in next year. Whilst this represents a significant contribution to the overall savings target for next year there remains a requirement to identify further savings of £501k.
51. In an effort to bridge this savings 'gap' the remaining options for savings put forward by Management Team have subsequently been reviewed and a list of suggested savings is provided at [Appendix E](#). These total £502k in 2017/18 with 'indicative' proposals also listed for the remainder of the current medium-term financial plan period.
52. A narrative supporting each of the savings proposals is provided at [Appendix F](#). The Base Budget submission for 2017/18 contains no provision for budget growth. Three other matters linked to the development of the budget are outlined below, namely the introduction of charges for junior pitches, the recharging of election costs to local councils and payment of employer pension contributions to the Lancashire County Pension Fund.

#### *Pitch fees for junior football matches*

53. In September the Executive considered a report on the Income Review and this included a proposal to re-introduce pitch fees for junior football matches. The Executive resolved that junior football clubs be consulted on the proposed introduction of a charge. The consultation was undertaken by Neighbourhood Services on the following charges; a charge of £5 (inclusive of VAT) for matches on 5 and 7-a-side pitches and £7.50 (inclusive of VAT) for matches on 9 and 11-side pitches.

54. A total of 7 responses were received from local clubs with responses ranging from support for the proposal through to a reluctant acceptance and in 2 cases objection (Colne FC and Barrowford Celtic). In the cases of support/acceptance this was generally linked to an expectation of improved pitch maintenance. In the cases of objection it was felt charges would have an adverse impact on grassroots football and went against the objective of increasing participation in active sport amongst younger age groups.
55. On balance there is qualified support for the proposal and the introduction of the above charges is included in the list of saving proposals at Appendix E which, if agreed, is estimated by service management to generate c£4k in 2017/18. Neighbouring councils that charge for junior football pitch hire include Burnley, Rossendale and Ribble Valley Borough Councils

#### *Recharging Local Councils for the cost of elections*

56. Under the Representation of the People Act 1983 all expenses reasonably incurred by the returning officer in conducting local council elections are paid by the principal local authority (i.e. Pendle) who in turn can require local councils to repay such costs. In short, it is the Borough Council that manages the local council election process and we can fully re-charge all reasonable costs incurred.
57. The principle of charging local councils for the cost of elections has already been agreed. On current timetables full local elections will be held and combined with borough council elections in May 2019, 2023, 2027 etc. On these occasions the costs recharged to each local council will reflect the marginal cost incurred by the borough council (i.e. the additional cost we incur directly as a result of conducting the local council election and not a share of costs that the Borough would have incurred anyway). No charge will be made for uncontested elections.
58. Where separate elections are held on behalf of a local council they will meet the full costs incurred. This will happen where a by-election arises which cannot be combined with borough council elections because of the timing of the vacancy (as happened with elections to two wards in Colne during 2016 with the costs recharged to the Town Council). If the timing is such that the bye-election can be combined with a borough election then the marginal cost recharge will be made.
59. It is recognised that local councils may find it hard to pay recharges that are sprung on them within a financial year. Where there is an unforeseen by-election the costs will be notified and recharged in arrears in the following financial year. This will enable the local council to include the cost in its precept. Where a full election is due an estimate of the cost will be notified to the local council in advance, so it can be taken into account when setting the following year's precept.

#### *Employer Pension Contributions to the Lancashire County Pension Fund*

60. As an employer the council makes pension contributions to the pension fund that are based on amounts set by actuarial advice and notified by the County Council. The contributions we make consist of two elements. The first is a % rate applied to our estimated annual payroll; the second is a lump sum payment as a contribution to the council's share of the pension fund deficit. The latter is intended to recover the deficit over a number of years.
61. Employer contribution rates are set following a triennial valuation of the pension fund and apply for three years. The new rates, following the 2016 valuation, commence from 1<sup>st</sup> April 2017. The pension fund has outlined a range of potential payment options for employers to consider including the following:

- a) monthly payments of both elements in each of the three years;
- b) a lump sum payment in April/May 2017 of one or both elements for that year only with the other paid monthly;
- c) a lump sum prepayment in April/May 2017 of both elements for all three years;
- d) some variant of the prepayment options above e.g. prepay the deficit contribution in full for all three years with the % contribution paid annually up front in each year;
- e) the option to pay deficit contributions over periods ranging between 16 – 18 years (term varies by employer).

62. The amounts involved are substantial but the flexible options offered by the Fund do merit consideration as they result in different levels of pension contribution payments dependent on the option taken. There are also legal and financial considerations to be addressed before a decision on this can be finalised.

63. The following illustrates the potential variants and their associated cost over three years:

	Projected cost over 3 years £m
<i>Standard deficit recovery period (16 yrs)</i>	
- Standard offer (monthly payments of both elements)	6.46
- Annual up-front payment of both elements	6.32
- Prepayment in April/May 2017 of both elements for all three years	6.05
<i>Alternative deficit recovery period (17-18 yrs)</i>	
- Standard offer (monthly payments of both elements)	6.18
- Annual up-front payment of both elements	6.04
- Prepayment in April/May 2017 of both elements for all three years	5.79

64. Since the last valuation in 2013 our practice has been to make monthly payments as a % of payroll whilst paying the deficit contribution in full in May each year. Adopting this approach over the next three years results in a total projected payment of £6.09m and this is the basis on which the current draft budget for 2017/18 and the medium-term plan to 2019/20 has been prepared.

65. The full prepayment option for all three years contributions would entail paying out £5.8m in April or May 2017 and charging this to the general fund annually over the next three years. This cash payment needs to be considered in the context of the council's current and projected cashflows, the investment returns on those cashflows and the cost savings projected from the early payment of pension contributions.

66. The full prepayment options are not without risks; these include cashflow management, legal and regulatory risks, as well as investment performance risk by the fund itself. The Council must conclude its position and notify the Fund by the end of February of our intentions. As it is not feasible to complete the required work for this meeting, it is requested that delegated authority be granted to the report author in consultation with the Leader and Executive Member for Finance to finalise and submit the Council's response.

## Council Tax 2017/18

67. From a financial planning perspective the position on Council Tax for 2017/18 is unchanged from that reported to the Executive in December. As with the current year the provisional local government finance settlement contained no proposals for council tax freeze grant. In fact, the spending power projections made by DCLG in respect of district councils assume that council tax will increase by £5 per annum.

68. The referendum threshold for council tax increases remains unchanged for 2017/18. Any proposal to increase council tax by 2% or above, AND by more than £5 will require the Council to hold a referendum and obtain public support for such an increase.
69. Following a consultation exercise in the autumn the Government has confirmed that the referendum principles will not be extended to local town and parish councils for 2017/18. They do however, propose to maintain this under review and could subject local precepts to similar constraints in the future.
70. Given the financial position facing the Council, Management Team's recommendation is that the Council should increase council tax for 2017/18 by the maximum permitted i.e. £5 (an increase of 2.04%). If agreed this this would result in a Band D charge for Pendle Council services only of ££250.16. An increase of £5 equates to 10p per week for Band D Properties (for Band A properties, it would be £3.33 or 6p per week).
71. 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.
72. 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 23<sup>rd</sup> February.

## **Reserves and Balances**

73. 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 £3.75m will be used from the Budget Support Reserves over the period to 2019/20. This, combined with the estimated use of the Budget Support Reserve in 2016/17, means a total of £5.1m will be taken from the reserve to support the budget in the period to 2019/20;
  - 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 £859k of such reserves in the period 2016/17 to 2019/20, and
  - the Minimum Working Balance will remain at £1.0m for 2017/18 and be subject to annual review to assess the adequacy of this (as will all other reserves).

## **Draft Budget for 2017/18 - Management Team Recommendation**

74. 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](#) in 2017/18.
75. This, combined with the proposed increase in council tax and using £1.57m 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 2017/18**

	Base Budget 2017/18 £000
Revised Net Expenditure 2017/18 (per Table 6 above)	13,624
Recommended Savings (see <a href="#">Appendix E</a> )	(501)
<b>Net Revenue Expenditure</b>	<b>13,123</b>
Use of Reserves (see <a href="#">Appendix H</a> )	(1,574)
Collection Fund – share of council tax surplus	(365)
Collection Fund – share of business rates deficit	419
Estimate of Government Funding (as per Table 1 above)	(5,762)
<b>Recommended Council Tax Requirement</b>	<b>5,841</b>

**Updated Medium Term Financial Plan 2017/20**

76. The Medium Term Financial Plan has been updated adopting the above budget proposal from Management Team for 2017/20 and is shown in Table 8 below:-

**Table 8: Medium Term Financial Plan 2017/20 (assuming Management Team's Budget)**

	Management Team Budget 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000
<b>Funding Shortfall (see Table 6)</b>	<b>2,075</b>	<b>3,617</b>	<b>4,722</b>
Estimated Use of Reserves	(1,574)	(1,685)	(1,350)
Previous Year's savings	0	(501)	(1,932)
<b>In Year Savings Proposed / Required</b>	<b>501</b>	<b>1,431</b>	<b>1,440</b>

77. As the table indicates, the budget in 2017/18 will be balanced assuming the savings proposed of £501k are agreed. However, there remains a significant budget deficit in each of the following 2 years **with further savings of £2.87m required**. The implications of this are considered in more detail below.

**What if less savings/income generation proposals are implemented?**

78. The Executive recognises 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.
79. This is illustrated in Table 9 below which sets out a scenario under which savings of only £250k are agreed for 2017/18 with further savings of £1m in 2018/19. Currently, the medium-term financial plan requires a contribution of £1.35m from the budget support reserve in the third year of the plan period (2019/20). However, if savings of only £1.25m are made in the preceding two years the balance on the budget support reserve will not be sufficient to make this contribution leaving an additional shortfall of £107k to be added to the existing savings requirement for that year.



**Table 9: 'What if' scenario re achievement of lower savings in 2017/18 & 2018/19**

	<b>Budget 2017/18 £000</b>	<b>Forecast 2018/19 £000</b>	<b>Forecast 2019/20 £000</b>
Savings Not Achieved b/fwd	-	251	682
Minimum Level of Savings Required (see Table 8)	501	1,431	1,440
<b>Balance of Savings Required</b>	<b>501</b>	<b>1,682</b>	<b>2,122</b>
In Year Savings 2017/18	(250)	-	-
In Year Savings 2018/19	-	(1,000)	-
In Year Savings 2019/20	-	-	0
<b>Savings Not Achieved</b>	<b>251</b>	<b>682</b>	<b>-</b>
(Additional Use of Reserves) / Shortfall in reserves	(251)	(682)	107
<b>Budget Deficit</b>	<b>0</b>	<b>0</b>	<b>2,229</b>

***Impact on Non-Committed Reserves***

	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Opening balance of non-committed reserves (per Appendix H)	4,126	3,310	1,093
In year contribution to reserves (income from Hsg Pendle)	150	150	150
Net budgeted use of reserves	(715)	(1,685)	(1,243)
Additional use of reserves if savings <u>not</u> achieved	(251)	(682)	0
<b>Total</b>	<b>3,310</b>	<b>1,093</b>	<b>0</b>

80. 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 2019/20 there is only c£1.2m left to support the budget. After this the residual deficit is £2.2m. To implement savings on this scale in one year represents 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.

**Addressing the savings requirement to 2019/20**

81. The Council has made significant savings since 2010. On staffing, the Council has reduced its headcount from 400 in 2010 to 254 in 2016. Taking account of decisions made when setting the budget for the current year, combined savings of £7m have been made since 2010/11. Thus far, in respect of next year, the Council has already agreed further savings of £1.22m.
82. Whilst this represents a significant achievement it is clear from our financial projections that more needs to be done. Given the savings made to-date there is limited scope to generate more from the ongoing, attritional reduction in services. This was acknowledged in the budget process for this year when the Council focused significant effort on four key areas of spending, namely:
- Waste Management
  - Grounds Maintenance
  - Pendle Leisure Trust
  - Liberata

83. These areas combined with staffing generally remain the main areas of expense and the intention is to maintain the focus on these areas during 2017/18 to help identify further options for savings over the medium-term period. There may be less scope with Liberata given the savings agreed in December linked to the contract extension. Similarly, decisions in respect of waste services are dependent on how the service will operate when the current cost sharing agreement with the County Council ends in March 2018. Despite these considerations work will continue on all these areas and be reported initially via the Budget Working Group.
84. As indicated above in table 8, the level of savings required over the next 3 years is £3.37m. If the budget proposed by Management Team for 2017/18 is implemented in full the residual savings required are estimated at £2.87m over the subsequent two years. This does assume the use of reserves as set out above and increases in council tax of £5 per annum.
85. 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 2017/18 onwards were reported to the Executive in December 2016 and are shown at [Appendix E](#) for information. In some cases items are included as 'indicative' proposals with more detailed work required. This will be undertaken in conjunction with the Budget Working Group.
86. In addition a report on the updated financial strategy to 2020/21 will be brought forward for consideration by the Executive early in the new financial year. This will have to consider the proposed reforms of business rates with 100% local retention by this time.

### **Capital Programme 2017/18**

87. A report elsewhere on the Agenda for this meeting provides more details of the proposed Capital Programme for 2017/18.

### **Estimated Collection Fund Surplus 2016/17**

88. 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).
89. The projected year end position on the collection fund in respect of council tax is a **surplus** of £2.1m. Pendle's share of this surplus is £365k and this has been factored in to the budget submission for 2017/18.
90. This contrasts sharply with the collection of business rates. The projected year end position in respect of business rates is a **deficit** of £1.05m. The deficit has to be recovered in 2017/18 and Pendle's contribution to this is £419k. This cost has also been factored in to the Council's budget requirement for next year and will be met from the reserve specifically set aside for this purpose when closing the accounts in 2015/16.

### **Council Tax Base 2017/18**

91. The Council Tax Base has been calculated in accordance with the relevant regulations at 23,348.3 Band D equivalent dwellings and was approved by the Executive at its meeting on 8<sup>th</sup> December 2016.

## Group Proposals

92. At this meeting, the Executive is requested to make recommendations to the Council on the Budget and associated council tax for 2017/18. Each Group will also have an opportunity to present alternative budget proposals for consideration by Council.
93. 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 23<sup>rd</sup> February 2017.

## Budget Consultation

94. The following activities have been undertaken to raise awareness and seek feedback on the Council's budget. These include:-
- Information to staff and Unions;
  - Publication on council website of our 'financial challenges' leaflet;
  - 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 has been sent to the East Lancashire Chamber of Commerce based on the reports presented to the Executive in December. Should there be any feedback prior to this meeting a verbal update will be provided to Councillors.

## Precepts, Printing Council Tax Bills etc.

95. The Major Preceptors will all be meeting during February 2017 to set their budgets and council tax. The dates of the meetings are as follows:-

Major Preceptor	Date of Meeting
Lancashire County Council	9 <sup>th</sup> February
Lancashire Fire and Rescue Authority	20 <sup>th</sup> February
Lancashire Police and Crime Commissioner	TBD

96. The council tax and precepts arising from the above meetings will be reported to the meeting of Council on 23<sup>rd</sup> February when Council will be asked to approve the budget and council tax for Pendle. Details of Town and Parish Council Precepts for 2017/18 have been requested by 3<sup>rd</sup> February and a summary listing of those submitted as at the time of writing this report is provided in [Appendix K](#).
97. The scheduled date for council tax bills and accompanying leaflets to be printed is late February 2017 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 1<sup>st</sup> April. Hence, it is important that Council Tax is set at the meeting of Council on 23<sup>rd</sup> February.

## IMPLICATIONS

### Policy

98. The Council's General Fund Revenue Budget supports the delivery of services in pursuance of the strategic objectives set out in the Strategic Plan.

99. The position reported for 2017/18 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**

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

## **Legal**

101. 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
102. 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 23<sup>rd</sup> February when the budget is considered for approval.

## **Risk Management**

103. 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](#).
104. 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. .
105. 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.
106. Some of the budget considerations have specific risks linked to them. An example is that of the option to pre-pay three years pension contributions in 2017. There are legal and regulatory risks that need to be resolved before this can be done. The accounting treatment needs to be clarified and agreed with external audit. There is the risk of challenge depending on the approach we take. Whilst steps will be taken to mitigate these risks Councillors need to be aware that greater risk taking is one consequence of the continued search and pressure to find savings via 'technical' options whilst trying to preserve front line service delivery.
107. Whilst the budget recommended for 2017/18 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.

108. The recommended budget for 2017/18 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.
109. 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**

110. 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**

111. 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**

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

### **Equality and Diversity**

113. An initial equalities screening assessment was included in the previous budget report to the Executive in December. No new equality considerations have arisen since that 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 2017/18
Appendix D	'Firming Up' Adjustments
Appendix E	Revenue Budget Savings Proposals 2017/18
Appendix F	Narrative Supporting Revenue Budget Savings Proposals 2017/18
Appendix G	Council Tax Exemplifications
Appendix H	Reserves and Balances
Appendix I	General Fund Revenue Budget 2017/18 – Management Team Recommendation
Appendix J	Responses to Area Committee Consultation
Appendix K	Town and Parish Council Precepts 2017/18

## **LIST OF BACKGROUND PAPERS**

First Budget Report – Presented to the Executive on 8<sup>th</sup> December 2016  
Provisional Local Government Finance Settlement 2017/18