REPORT OF:	**STRATEGIC DIRECTOR**
TO:	**EXECUTIVE**
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FINANCIAL STRATEGY
UPDATE OF THE MEDIUM TERM FINANCIAL PLAN 2016/19

PURPOSE OF REPORT

1. The purpose of this report is to provide the Executive with an update on the Council's Financial Strategy and Medium Term Financial Plan (MFTP) 2016/19 and to set out a draft Budget Strategy for the period.

RECOMMENDATIONS

2. The Executive is recommended to:

   a) note the prospects for Government funding in the period 2016/17 to 2018/19 as explained in the report;

   b) note the key areas of current lobbying on local government finance shown at paragraph 23 and agree that the Leader, in consultation with the Strategic Director, seek the support of Pendle's Member of Parliament on these matters;

   c) note the Financial Strategy for 2016/19 (and the supporting Medium Term Financial Plan 2016/19 as shown at ***Appendix B***) as set out in the report and in doing so the strategy for the use of Balances and Reserves in the same period;

   d) agree the establishment of a cross-party Budget Working Group to:-

      i) develop charging and savings proposals to reduce the Council's net expenditure by £1.5m for consideration in the development of the budget for 2016/17;

      ii) identify the development of further charging and savings options to deal with the balance of the budget deficit to 2018/19;

   e) note the Medium Term Capital Programme as shown at ***Appendix D*** and that, in this context, a further report on the Capital Programme will be submitted to Councillors later in the year.

REASONS FOR RECOMMENDATION

3. To continue with the implementation of the Council's Financial Strategy and to deal with the Council's forecast medium term budget deficit.

ISSUE

Background

4. This report provides an update to the Financial Strategy and Medium Term Financial Plan for the period 2016/19 as well as highlighting those matters that the Executive should consider as it looks forward to the formulation of a Budget Strategy for the next financial year and over the medium term.

5. Councillors will be aware of the significant reduction in funding for local government in recent years. By 2015/16, core funding for local government had reduced by 40% (the reduction in Pendle's funding by 2015/16 is 55%) and the Government has indicated its intention that, over the period to 2018/19, there will continue to be reductions in Government spending so that it can achieve its fiscal mandate – to have a budget surplus in 2019/20 with borrowing only taken for investment purposes and not for day to day expenditure.

Review of Budget Strategy for 2015/16

6. Before considering the Council's forecast budgetary position from 2016/17 onwards, it is worthwhile reviewing the budget strategy for 2015/16 and how that compares to the agreed budget for the year. This comparison is provided in Table 1 below and provides some context for the Council's medium-term financial position set out further in this report:-

Table 1: Review of Budget Strategy 2015/16

Strategy Area	Proposal	Approved	Financial Impact £000
Council Tax	Increase in Council Tax of 1.99%	No Council Tax Increase	+£43k
Budget Growth	No Growth	£73k	+£73k
Budget Savings	Savings of £1.124m	Savings of £701k	+£423k
Net Impact			**+£539k**
Use of Reserves	Use of Reserves £1.839m	Use of Reserves £2.378m	(£539k)
Balanced Budget			-

7. As Table 1 indicates, in comparison to the proposed budget strategy, the decisions taken to agree the final budget for 2015/16 resulted in an increase in estimated costs to the Council which had to be met from an increase in the use of reserves.

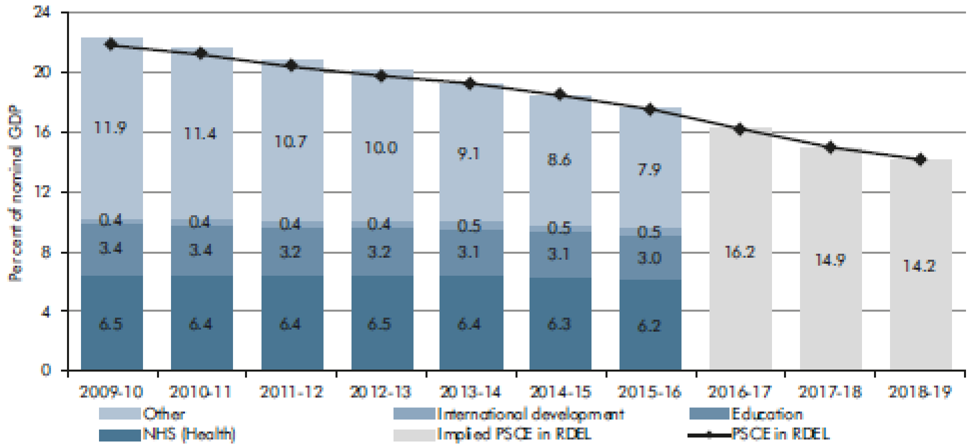
8. As reserves are a finite resource, the ongoing cost burden of these decisions cannot continue to be met from reserves indefinitely and will, subject to there being no upturn in funding to the Council, have to be addressed by permanent reductions in net expenditure in the medium term as the amount of reserves declines.

The Outlook for Government Funding to 2018/19

9. The Government is to deliver a Budget on 8th July 2015. It is not clear at this stage what the budget will include but it is expected to be followed up by a full Departmental Spending Review in October 2015. As is normally the case, the provisional Local Government Finance Settlement is expected to be announced in December before the final settlement is confirmed early in February 2016.

10. According to Budget 2015 (announced in March 2015), the budget deficit for 2015/16 was expected to be £75bn as a consequence of slower than expected economic growth; at each successive budget since SR2010, the Government has had to revise its spending plans downward to ensure that it continues to meet its commitment to reduce the national budget deficit and, therefore, the annual level of borrowing.

11. Whilst there is no detail about what this means for Departmental Spending Plans, on the basis of the details given in Budget 2014, it is possible to forecast the likely change in Government spending over the period to 2018/19. This is illustrated in the chart below which shows Departmental Spending as a percentage of GDP:-



12. As the chart indicates, if the Government continues to protect spending on the NHS, Schools and International Development in the period to 2019, the burden of the reduction in Government spending is going to fall on the remaining Government Departments including Local Government. Beyond 2015/16, the trajectory of spending remains downward and, if the Government continues to protect the NHS, Schools etc., it is possible that funding for remaining Government Departments will be c40% of what it was in 2009/10 (with the rate of spending reduction in 2016/19 being similar to that experienced in the period 2010/16).

13. In summary, therefore, the outlook for Government funding remains extremely challenging. **The funding reductions to date have been significant and there is every indication that future funding rounds will deliver similar levels of funding reduction albeit over a shorter period.**

Pendle's Funding Outlook 2016/19

14. The Council's funding from government primarily consists of Business Rates, Revenue Support Grant and New Homes Bonus. Growth in business rates income is dependent on securing economic development and additional employment. Revenue Support Grant will become less significant as the Government continues to reduce this source of funding. Securing additional New Homes Bonus requires new housing to be developed combined with ongoing reductions in the number of empty homes. Putting in place the conditions in which to grow these sources of funding will take time and even if positive progress is made on these matters there will still be a time-lag between local growth developments and any additional funding.

15. Specific funding allocations for local government for the period beyond 2015/16 are not currently known. In the absence of this information, and given the magnitude of the funding reductions already implemented, is it difficult to provide accurate estimates of future funding levels for Pendle.

16. For the purposes of the analysis in this report, it has been necessary to make some broad assumptions and as such the Council's funding outlook will remain under review as more information becomes available. Table 3 below summarises the estimate of Core Revenue Funding the Council is expected to receive over the next 3 years to 2018/19:-

Table 3: Estimate of Funding for 2016/17 to 2018/19

	Known 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	3,747	3,854	3,984
Revenue Support Grant	3,904	2,866	1,995	1,190
Total	**7,574**	**6,613**	**5,849**	**5,174**
Cumulative change since 2010/11	***46%***	***55%***	***60%***	***63%***

17. As the Table indicates, it is estimated that, on current assumptions, the Council's funding will fall from £7.6m in 2015/16 to £5.2m in 2018/19, a reduction of £2.4m.

New Homes Bonus Allocations

18. The Council will receive £952k in 2015/16 comprising £714k funding for the period up to 2014/15 plus an additional £238k for New Homes/Empty Properties brought into use between October 2013 and October 2014. Table 6 below provides shows the amounts received / forecast.

Table 6: Estimate of New Homes Bonus Funding Payable to Pendle

Year	Use of Funding Received	Actual Funding 2015/16 £000	Estimated Funding 2016/17 £000	*Estimated Funding 2017/18 £000*	*Estimated Funding 2018/19 £000*
1	Base Budget Funding	101	101		
2	Base Budget Funding	92	92	*92*	
3	Base Budget Funding	179	179	*179*	*179*
4	Base Budget Funding	342	342	*342*	*342*
5	Base Budget Funding	238	238	*238*	*238*
6	Base Budget Funding		50	*50*	*50*
7	Base Budget Funding			*50*	*50*
8	Base Budget Funding				*50*
	New Homes Bonus (Est)	**952**	**1,002**	***951***	***909***

19. The New Homes Bonus Scheme was originally introduced for 6 years only and could, therefore, expire in 2016/17.

<u>*Council Tax*</u>

20. There has been no increase in the Council's share of the Council Tax for the last 6 years. In recent years, the Council has taken advantage of the Freeze Grant made available by the Government and not increased the Council Tax charge.

21. It is expected that the current Government will continue to limit increases in Council Tax. Whilst there is no indication at present what level of Council Tax increase the Government will consider excessive it is assumed that, as in 2015/16, a ceiling of 2% will apply. There are provisions within the Localism Act 2012 that allow Councils to hold a referendum in the event that an excessive Council Tax Increase is proposed.

22. At present, there is no confirmation that the Government will provide additional funding to freeze Council Tax in 2016/17. In view of this, and for the purposes of financial planning only, it is assumed that Council Tax will increase by 1.99% per annum. For information, an increase in Council Tax of 1.99% (from the present annual charge of £240.38 to £245.19) on the current tax base would yield additional income of £109k per annum.

Key Areas of Current Lobbying

23. Before turning to the Council's current and medium term financial position, and in the context of the analysis above, it is worthwhile highlighting some of the key areas of current lobbying on local government finance, particularly those which the Government is being asked to consider in the context of the reforms to local government finance in the face of the substantial funding reductions:-

    a) ***Business Rate Retention – A reduction in the Central Share of 50% (and corresponding increase in the Local Share)*** – currently, the Government retains 50% of any business rates collected by local authorities, an amount known as the Central Share with the balance retained in local government. The former Secretary of State for Local Government had previously intimated that the Government may review the amount of the central share, the argument being that Councils should retain a greater share of business rates as an incentive to drive economic growth in their locality.

    b) ***Council Tax – A change in the rate of Single Persons Discount*** – As previously reported to Councillors, as part of the development of the technical changes on Council Tax and culminating in the changes to discounts/exemptions now provided for in the Local Government Act 2012, there was a Lords Amendment to change the rate of Single Persons Discount from 25% to 20%. This was ultimately withdrawn due to a lack of support but, nevertheless, remains an area which local government organisations continue to put forward particularly in the context of localising decisions on Council Tax;

    c) ***Fees/Charges – freedom for Councils to charge*** – it is being argued that all fees and charges should be determined locally to provide Councils with the ability to be more responsive to local needs and to remove inconsistent subsidies for commercial services. An example of this is in Planning where there is a continuing lobby to allow Councils the freedom to determine fees for planning locally and as a means of properly recovering the costs of the planning function;

d) ***New Homes Bonus (NHB) – continuation of new funding for NHB*** – since 2012/13, funding for NHB has been top sliced from funding available to local government generally. This amount of top-slice will continue to grow as the NHB grows and given how NHB is distributed, is likely to result in a net loss of funding to areas like Pendle. In view of this, and a National Audit Office report which questions the incentive effect of NHB, the argument is that the Government should continue to provide new funding for the Bonus rather than it being top-sliced from existing funds.

24. These and other issues remain the basis of continuing lobbies by the various Local Government organisations, for example, Local Government Association, SOLACE and CIPFA and are areas which the Executive may want to consider further lobbying in conjunction with Pendle's Member of Parliament.

General Fund Revenue Outturn 2014/15

25. Details of the provisional outturn position for 2014/15 are reported separately elsewhere on this agenda. This outlines a net underspend on the Council's General Fund Revenue Account for the year of £212k. Subject to confirmation of this position the amount required from the Budget Support Reserve to balance the account is £215k.

26. The Council's accounts for 2014/15 are subject to external audit and that the final outturn position will not be confirmed until the audit of the accounts is concluded in the Autumn.

General Fund Revenue Budget 2014/15

27. The General Fund Revenue Budget for 2015/16 was set in February 2015. At this early stage of the financial year, no monitoring of the budget has been undertaken. The first quarterly monitoring report as at the end of June will be reported to the Executive in August.

Estimated Balances and Reserves

28. The development of the Council's Financial Strategy considers what available balances and reserves the Council has and the policy and strategy adopted for their use. An analysis of Balances and Reserves is provided at ***Appendix A***. The key issues to note with Balances and Reserves are:-

- It is assumed at this stage that the minimum working balance (the General Fund Balance) will remain unchanged at £1.250m as will the funding for the Liberata Bond (£500k);

- Taking into account estimated movements in 2014/15, and subject to the outcome of the audit of the accounts, the balance of the Budget Strategy at 31st March 2015 is c£4.5m;

- It is estimated that the Council will receive a further £650k over the three year period 2016/17 to 2018/19 as a result of the VAT Shelter arrangement with Housing Pendle;

- Certain specific reserves (e.g. VAT Partial Exemption Reserve and the Change Management Reserve) are being held as part of the Council's management of risks associated with the related areas of activity. These are reviewed annually, both as part of the closure of the Council's accounts and also as part of the budget setting process.

29. Table 4 below provides an analysis of how non-committed reserves are currently estimated to be used over the next three years as reflected in the Medium Term Financial Plan 2016/19:-

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

	Estimated Opening Balance £000	Less Committed Reserves*2 £'000	Non-committed (Available) Reserves £'000	Planned Budget Support Use £000	In-year Receipt*3 £000	Estimated Closing Balance £000
Reserves 31/3/15*1	10,739	(4,919)	5,820			
2015/16	5,820			(1,775)	250	4,295
2016/17	4,295			(1,350)	250	3,195
2017/18	3,195			(1,300)	200	2,095
2018/19	2,095			(1,000)	200	1,295
Total				**(5,425)**	**900**	

*1 – Excludes Minimum Working Balance of £1.250m and Liberata Bond Reserve of £500k;
*2 – More information on committed reserves is shown in Appendix A.
*3 – Estimated of VAT Shelter Receipts from Housing Pendle. The profile of these receipts cannot be confirmed at this stage and may differ from the analysis shown above.

30. More information on 'committed' reserves is provided in ***Appendix A***. Whilst there may be an element of discretion/flexibility regarding the final use of these reserves, the extent to which these are 'de-committed' could have adverse implications for the services/activities for which the reserves have been earmarked.

31. It is stressed that whilst using reserves allows the Council to incur expenditure above its ongoing resources, to continue doing so at current levels is not a sustainable position; hence the need to align expenditure with ongoing resources is a fundamental theme of the Council's Financial Strategy.

Medium Term Financial Plan 2016/19

32. Work has been ongoing to update and roll forward the Council's MTFP for the period 2015/18. This takes into consideration decisions on the budget for 2015/16 and the outcome of this work forms the basis of this report. Table 5 below provides a summary of the MTFP 2016/19 whilst a more detailed analysis is provided at ***Appendix B*** (which, at this stage, excludes any use of reserves):-

Table 5: Medium Term Financial Plan 2015/18 (*No Use of Reserves*)

	Approved Budget 2015/16 £000	Forecast 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000
Net Expenditure	15,559	15,408	15,868	16,301
Less Retained Business Rates	(3,670)	(3,747)	(3,855)	(3,984)
Less Revenue Support Grant	(3,904)	(2,866)	(1,995)	(1,190)
Fiscal "Gap"	**7,985**	**8,795**	**10,018**	**11,127**
Collection Fund Surplus	(179)	(250)	(100)	0
Council Tax Income	(5,437)	(5,573)	(5,712)	(5,855)
Local Funding "Gap"	**2,369**	**2,972**	**4,206**	**5,272**

Source: Appendix C

33. As Table 5 above shows, ***before considering the use of reserves***, there is a forecast deficit on the Council's MTFP of £5.3m by 2018/19 with the most immediate issue being a budget shortfall in 2016/17 of c£3m. ***This assumes no action is taken to deal with this shortfall.***

34. By its very nature, the MTFP has been developed on the basis of a range of assumptions. It is intended to reflect the ongoing cost of current service delivery taking into consideration the decisions Councillors have taken in the latest round of budget setting. The key assumptions are set out in ***Appendix C*** and Councillors should note these at this stage.

35. However, there are the following issues which warrant separate mention:-

    a) ***Localisation of Support for Council Tax (LCTS)*** – Councillors approved the LCTS Scheme for 2015/16 at the Council Meeting in December 2014. It was agreed that amount of support for Council Tax would remain at a maximum 80%.

       For the purposes of planning the budget for 2016/17, it is assumed that there will be no change to the amount of grant allocated to the Council for Council Tax Support. However, a change in the rate of support and/or other changes to the scheme do remain policy options for the Council and will need to be considered in due course.

    b) The Medium Term Financial Plan does not, at this stage, reflect any changes in the future funding of ***Waste Recycling Activities*** by Lancashire County Council which is currently under review. At this stage, it is assumed that any changes are unlikely to impact prior to 2018/19 at the earliest but this matter will be kept under review given the potential significant impact;

    c) The implications of the roll-out of ***Universal Credit***. This will replace a range of benefits including Housing Benefits. The implications of this for the Council and the contract with Liberata over the medium term cannot, at this stage, be quantified and will remain under review.

The Financial Strategy 2016/19

36. The Local Government Finance Settlement for 2015/16 and current indications for future funding point to a significant and ongoing reduction in funding for the Council; in response to the financial challenge faced by the Council, it is proposed that the strategy adopted for the medium-term plan continues to build on the following themes as agreed last year:

    - **Growing** the Council's income using the funding mechanisms now in place for local government, particularly the Business Rate Retention Scheme and the New Homes Bonus. This means that the Council must actively consider ways in which it can increase income from business and housing growth to ensure that funding for services can be maintained;

    - **Charging** for services, raising income which will mean that it is possible to continue providing services that resident's value. This will mean reviewing the level of fees and charges, reducing the subsidy on some services and considering the introduction of new fees and charges. It will also include reviewing the level of discretionary council tax discounts and the local scheme of Council Tax Support;

    - **Saving** costs by, for example, reviewing how the Council delivers services, doing things differently and more efficiently, scaling services to appropriate levels within the resources available to the Council and working with partners, including local town and parish councils to sustain local facilities.

37. The following narrative provides more detail on each of these approaches.

Growing

Growth in Retained Business Rates Income

38. The Business Rates Retention Scheme offers the opportunity to increase the Council's income by increasing the amount of retained business rates. This does, however, require growth in the business rates tax base, i.e. more business ratable properties to be provided in the Borough. There is, therefore, a clear link here with a strategic approach to economic growth and regeneration within the Borough.

39. To put this in some context, the Council's business rates tax base is currently £52.3m. In broad terms, for every £1.5m growth in the Taxbase (equivalent to, say, an additional Superstore), Pendle's income would increase by c£300k (assuming no other changes).

40. The Council's present strategy for economic development and regeneration focuses rightly on growth in existing businesses within Pendle (albeit accepting that, where the opportunities present themselves, encouraging inward investment in the Borough). There is a need, therefore, for the Council and its Partners – locally with the Pendle Vision Board, sub regionally as part of PLACE and regionally through the Lancashire Local Enterprise Partnership (LEP) – to ensure that those businesses that want to grow are supported in doing so. In this context, the Council is:-

- expected to participate in the Lancashire Strategic Economic Plan (SEP) and the Growth Deal with Government as a means of attracting investment from the Single Local Growth Fund into the Pendle area;

- as part of the SEP, contributing to the development of the East Lancashire Highways and Transport Masterplan aimed at improving the transport infrastructure and connectivity within Pendle and with other parts of Lancashire and Yorkshire which will underpin economic and housing growth in the area;

- developing and implementing the Jobs and Growth Strategy for the Pendle area. The Strategy was approved by Council in December 2013 which is intended to guide the economic development of the Pendle Area;

- through the development of the Core Strategy, bringing forward an extension to Lomeshaye Industrial Estate as a strategic employment site;

- working with the Pendle Vision Board to promote and raise the profile of Pendle (and its constituent Towns) as a place to do business and as a means of encouraging networking between businesses, skills providers and the public sector.

41. In support of this activity, and as set out in reports elsewhere on the Agenda for this meeting, it is proposed to provide additional investment in business support to both help existing Pendle businesses to grow and to provide incentives to attract businesses to protected employment areas in the Borough.

Pooling of Business Rates

Informal discussions amongst officers have taken place regarding the scope for a business rate 'pool' to be set up in 2016/17 for participating Lancashire authorities. More information on this will be presented to the July meeting of the Executive. The benefit of a pool is that the levy payable to Government under the current rates retention scheme is retained locally. The counter to this is the safety net protection granted by Government under the scheme would no longer extend to 'pooled' authorities. The Council's budget in the current year assumes a levy of £0.3m.

Growth in New Homes Bonus

42. Similarly, there is scope to increase the Council's share of income from the New Homes Bonus but only if there is an increase in new homes and empty homes brought back into use (that are both registered on the Council Tax Valuation List). On the basis of the present New Homes Bonus Scheme, every property built or empty property brought back into use generates income of c£5k over a 6 year period.

43. The delivery of net new homes in Pendle has been limited since the introduction of New Homes Bonus. The Council's allocation for 2015/16 reflected the delivery of 39 net new homes in the period October 2013 – October 2014 albeit that the Council has delivered good performance in reducing the number of empty homes which is also a measure by which the Bonus to Councils is determined. Whilst acknowledging the difficulties of housing development in Pendle, there is a need to consider what action the Council might be able to take to address the delivery of new housing.

Charging

44. Annually, the Council reviews its fees and charges. The review for 2016/17 will be undertaken in the coming months and will be reported to the Executive in September 2015. In doing so, the opportunity will be taken to revisit the introduction of charges for services that residents value, for example, for the collection of Bulky Household Waste; administrative charges for replacement Wheeled Bins and whether there is scope for the introduction of car parking charges.

Saving

45. Whilst the Business Rate Retention Scheme and the New Homes Bonus do offer some opportunity to increase the Council's income, any growth in the near term is unlikely to deliver sufficient income to make up for the significant reduction in Government grant and to deal with the Council's budget deficit. Indeed, any measures considered now as a means of increasing income in these areas could take some considerable time to implement before any additional income is generated.

46. Equally, the Council's ability to charge for services or reduce the extent of discounts is unlikely in isolation to generate sufficient additional income to make up for the funding shortfall faced by the Council. In view of this, the Council needs to consider ways in which it might also reduce expenditure in other ways to ensure that it has a balanced budget over the medium term.

Strategy for Budget Savings in 2016/19

47. As outlined in previous budget reports, given the extent of savings achieved since 2010/11, the Council's ability to deliver further efficiencies is limited; **saving of the magnitude set out above will mean reductions in frontline services and will require Councillors to take difficult decisions in this regard.** The proposed strategy for saving costs seeks to build on the work already undertaken in recent years

48. With this in mind, 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 a range of services. Details of the Strategy have been included in previous reports but some of the key themes for the development of these savings options include:-

- continuing the programme of activity working with Town and Parish Councils to retain the delivery of services and community facilities locally;

- maintaining the staffing structure under review to ensure it remains lean but sufficiently resilient to cope with the changes in the delivery of services as the resource base reduces;

- reviewing leisure and cultural services to ensure they continue to offer value for money;

- reducing funding for discretionary services to ensure that sufficient resources are available to fund the Council's statutory obligations;

- changing the way residents access Council Services with a continued emphasis on self-serve / automated processes for transactional type activity;

- reviewing the efficiency and scope of key frontline services such as Refuse Collection, Street Cleansing and Grounds Maintenance and associated vehicle requirements;

- .exploring the scope for achieving further efficiencies from the Council's partnership arrangement with Liberata.

49. The Executive should note that this is not an exhaustive list. Work to develop these options has started and a further report on the proposals for savings will be provided in an update on the Financial Strategy and Medium Term Financial Plan later in the year.

Strategy for Using Reserves and Balances

50. In support of the above strategy, it is proposed to use balances/reserves to smooth the impact from year to year. But, fundamentally, balances/reserves are a finite resource and should not be relied on indefinitely to balance the budget.

51. Details of the Council's Reserves and Balances are provided above. In relation to the available reserves, the current strategy is as follows:-

- ***the Minimum Working Balance will remain at £1.250m over the period to 2018/19 (and the balance of the Bond Reserve will remain unchanged)***.

- ***Committed (Specific) Reserves will be used only for the purposes for which they have been set aside and will be subject to an annual review***; and

- ***an amount of £3.65m will be used from the Budget Strategy Reserves over the next three years (£1.35m in 2016/17, £1.3m in 201/18 and £1m in 2018/19).*** This is on the basis that the Council receives £650k from Housing Pendle, over the same period, a position which will be assessed on an annual basis;

52. Table 7 below shows the impact of the applying this Strategy on the Council's Medium Term Financial Plan:-

Table 7: Use of Balance and Reserves and the Impact on the MTFP

	Budget 2015/16 £000	Forecast 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000
Local Funding "Gap"	**2,369**	**2,972**	**4,206**	**5,272**
Use of Budget Support Reserves	(1,605)	(1,350)	(1,300)	(1,000)
Use of Specific Reserves	(764)	(152)	(130)	(100)
Total Use of Reserves	**(2,369)**	**(1,502)**	**(1,430)**	**(1,100)**
Funding "Gap"	**-**	**1,470**	**2,776**	**4,172**
Year on Year Savings Required	**-**	**1,470**	**1,306**	**1,396**

53. As Table 7 indicates, applying the reserves strategy above will require a further c£4m to be drawn from reserves but still means that savings of c£4.2m are required over the next three years. The most immediate issue is the need to find savings of £1.5m for 2016/17.

Draft Budget Strategy 2016/19

54. Looking specifically at the Budget Strategy for 2016/19, it is proposed that the key elements are as follows:-

- pursue, the Growing, Charging and Saving Strategy as set out above;
- no budget growth without equivalent savings being proposed;
- use of £3.65m from the Budget Strategy Reserve in support of the budget (plus the use of specific reserves where these are required).
- no prudential borrowing other than that already assumed in the Medium Term Capital Programme (*with a caveat that even the present assumed level of borrowing will need to be reviewed in the context of the affordability of the Capital programme and the General Fund Revenue Budget*);

55. Applying this Strategy requires estimated budget savings of c£4.2m (as per Table 7 above) to be identified over the next three years, all of which should be ongoing reductions in the Council's budget.

<u>What if less savings are implemented during the next 2 years?</u>

56. Ultimately it is the Council which will determine the overall budget for 2016/17. To inform early consideration of the issues the following comments illustrate the impact of agreeing fewer savings in 2016/17 which would then impact on future year's budgets and the continuing delivery of frontline services.

57. Table 8 shows the potential consequences of implementing savings of only £750k in both 2016/17 and 2017/18 rather than the current requirement as shown in table 7 above. As less savings are implemented, the shortfall can only be met from using more reserves. The contribution from reserves increases from £1.5m to £2.22m to balance the budget in 2016/17.

Table 8: Medium Term Financial Plan 2016/17 – Impact of £0.75m savings in 2016/17 and 2017/18

	Forecast 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000
Local Funding Deficit (see Table 5)	**2,972**	**4,206**	**5,272**
Previous Year's In-Year Savings	-	(750)	(1,683)
Estimated Use of Reserves	(2,222)	(2,523)	(200)
In Year Savings Achieved / Required	**750**	**933**	**3,389**

58. However, the requirement to reduce the base budget remains, so the savings required in the following year simply rises in line with the previous year's shortfall. This is compounded by the fact that by 2017/18 the Council will have used in full the balance of 'available' or non-committed reserves. There will be insufficient reserves available to plug the gap if savings of only £750k are implemented in 2017/18. By the end of this year the Council will have used £6.52m of available reserves over the three year period 2015/16 to 2017/18. As a result, if this scenario is confirmed the 'minimum' saving required in 2017/18 would be £933k as shown in table 8 above

59. Deferring savings in this way merely shifts the burden of savings to later years such that by 2018/19 the Council would have to find savings of £3.4m with the only 'available' reserves being the in-year receipt from Housing Pendle estimated at £200k. Clearly, this is not a sustainable strategy as not only will reserves be exhausted, the requirement to reduce expenditure will remain and the Council may, by this time, have limited, if any, choices about the service reductions that would be required.

60. In this context, Councillors will be aware of the progress made on implementing savings in previous budget rounds. It is considered that most of the savings which can readily be achieved have been made. The projected scale of savings required over the next three years is such that it will require strategic decisions to be made on the provision of services, including whether to withdraw from some or to provide services in other ways including further collaboration or possibly further outsourcing. However, these are also decisions that will take time to resolve and implement meaning action must start quickly if such options are to be available in future budget rounds. To facilitate this work, the Executive is asked to appoint a cross-party Budget Working Group to explore the options for savings over the medium-term plan period.

Medium Term Capital Programme 2016/19

61. As important as the forecast position on the Council's General Fund Revenue Budget, is the Council's Medium Term Capital Programme (MTCP). ***Appendix D*** provides a summary of the forecast MTCP showing anticipated expenditure and expected funding. The forecast MTCP is summarised in Table 9 below:-

Table 9: Outline Medium Term Capital Programme 2016/19

	Forecast 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000
Capital Expenditure	1,548	1,476	1,360
Less Funding	(550)	(550)	(525)
Unfunded Spending	998	926	835
Borrowing Requirement	**998**	**926**	**835**
Budgeted Borrowing	(500)	(500)	(500)
Savings Required *1	**498**	**426**	**335**

*1 – This assumes borrowing at the level shown. In the event, the amount of borrowing is reduced, savings would be required.

62. Issues to note about the MTCP are as follows:-

a) The above table is based broadly on the 'indicative' capital programme as submitted to Council in February when the current year's programme was approved. This assumes provision for priority areas such as Disabled Facilities Grants (£350k) and Area Committees (£100k) which are substantially lower than the budgets agreed in the current year (£500k and £150k respectively). The capital programme will be subjected to a full review during the year and reported to the Executive in due course. Therefore, the indicative programme as presented at ***Appendix D*** is subject to change;

b) it is assumed at this stage that there will be no growth in the capital programme shown and that any bids will, as a minimum, have to be contained within budgeted resources;

c) the estimate of capital receipts is £100k per annum falling to £75k in 2018/19, derived from the disposal of miscellaneous assets.

d) it assumes no Right to Buy Receipts from Housing Pendle as it is not possible to predict with certainty whether any such sales will occur;

e) it assumes there will be no new capital grant funding other than funding for Disabled Facilities Grants (DFGs).

63. The key message from Table 9 above is that, on the basis of current estimates, there is insufficient funding to meet demand for capital spending without additional borrowing, the costs of which would fall on the revenue budget compounding the predicted level of savings required.

Budget Consultation

64. In recent years, the Council has undertaken a range of consultation on the Council's budget proposals. It is proposed to repeat this as part of the preparation of the budget for 2016/17. The Budget Consultation Plan will therefore comprise:-

- consultation with staff and Unions;
- the 'Savings Challenge' – the Council used the '*feedbackonline*' website to invite savings proposals from both the residents and staff. All of the responses received along with the Management Team's response were reported as part of the budget papers to the Executive and Council;

65. In relation to the Area Committees, reports will be submitted to the January cycle of meetings. The resolutions of each Area Committee will be reported to the Executive. With respect to the Business Community, budget papers will be sent to the East Lancashire Chamber of Commerce (ELCC) following the December meeting of the Executive.

Next Steps

66. As indicated above, this report provides an update on the Council's Medium Term Financial Plan and, given the assumptions outlined above, provides details of the financial envelope the Council should operate within. Table 10 below outlines the timetable for the service and financial planning process going forward culminating with the setting of the Council's Budget and the Council Tax for 2016/17:-

Table 10: Forward Timetable for the Development of the Budget 2016/17

Date	Action	Status
June	Update of Medium Term Financial Plan	Completed
July	Completion of Service Plans / Budget Working Group established	
September	Mid-year review of savings options – report to Executive	
October	Refine Medium Term Financial Plan to 2018/19	
Nov	Early drafting of Budget for 2016/17 and Revised for 2015/16	
Nov/Dec	Provisional Local Government Finance Settlement 2016/17	
Dec	Executive considers initial budget submissions (revenue & capital)	
Dec-Jan 2016	Proposed Draft Budget 2016/17 developed	
Jan 2016	Final Local Government Finance Settlement 2016/17	
Feb 2016	Executive recommends Budget and Council Tax to Council	
Feb 2016	Council sets Budget and Council Tax for 2016/17	

IMPLICATIONS

Policy

67. The forward projections in the report represent a significant challenge to service provision in the short to medium term. There is a need, therefore, to put in place a strategic approach to future financial planning with a particular focus on a move to a more sustainable budget base over the medium term planning period. The development of the Financial Strategy represents the next stage in the process of the Council's strategic financial planning process.

Financial

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

Legal

69. There are no legal implications arising from this report although the Executive will appreciate that it is a statutory requirement to set a balanced budget each year.

Risk Management

70. The risks associated with the Council's Financial Strategy and the Medium Term Financial Plan are as previously set out.

71. The key risk for the Council highlighted in this report is the future funding provided by the Government for both revenue and capital spending. On current plans, the Council's revenue funding is estimated to fall by a further c63% by 2018/19 when compared to funding levels in 2010/11. **These are unprecedented reductions in funding and require the Council to take action.**

72. As a consequence of this sustained reduction in resources, the Medium Term Financial Plan shows a significant deficit. There is a need, therefore, to put in place plans to make substantial savings to achieve a balanced budget and this will inevitably impact on the Council's ability to deliver existing service levels.

73. To address the funding deficit, this report sets out a strategy to grow income, charge for services and to save costs. This is underpinned by using reserves over a three-year period as a means of 'smoothing' the amount the Council needs to save to achieve a balanced budget.

74. The most immediate issue for the Council is develop plans to save £1.5m in 2016/17 as well as developing other options which will reduce the Council's net expenditure by £4.2m over the period to 2018/19.

Health and Safety

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

Climate Change

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

Community Safety

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

Equality and Diversity

78. In compliance with the Council's duties on equality and diversity, changes in the budget that impact on the provision of services will need to be properly assessed to ensure Councillors are fully aware of the impact on the community. An Equalities Impact Assessment will be undertaken on proposals as they are developed where this is considered necessary to do so.

APPENDICES

Appendix A – Balances and Reserves – Forward Look to 2018/19
Appendix B – Medium Term Financial Plan 2018/19
Appendix C – Key Assumptions for Medium Term Financial Plan 2018/19
Appendix D – Draft Medium Term Capital Programme 2018/19

LIST OF BACKGROUND PAPERS

Papers held in Financial Services