Borough of Pendle

REPORT OF:	**FINANCIAL SERVICES** **FINANCIAL SERVICES MANAGER**
TO:	**EXECUTIVE**
DATES:	**26th MAY 2016**

Report Author:	Vince Green
Tel. No:	01282 661867
E-mail:	vince.green@pendle.gov.uk

FINANCIAL STRATEGY
UPDATE OF THE MEDIUM TERM FINANCIAL PLAN 2017/20

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) 2017/20 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 2017/18 to 2019/20 as explained in the report;

   b) note the Government's offer of a four year funding settlement and the deadline for applications of 14th October 2016; (with a further report on this to be presented in due course);

   c) note the reforms to the system of Business Rates Retention and the programme of work now underway to prepare for the new system by 2019/20;

   d) note the Financial Strategy for 2017/20 (and the supporting Medium Term Financial Plan 2017/20 as shown at **Appendix A**) as set out in the report and in doing so the strategy for the use of Balances and Reserves in the same period;

   e) Provided the cross-party Budget Working Group is re-established, request that it:

      i) develops charging and savings proposals to reduce the Council's net expenditure by £1.5m for consideration in the development of the budget for 2017/18;

      ii) identifies further charging and savings options to deal with the balance of the budget deficit to 2019/20;

f) note the Medium Term Capital Programme as shown at **Appendix C** and that, in this context, a further report on the capital programme will be submitted to Councillors later in the year including options for the flexible use of capital receipts.

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. Councillors will be aware of the significant reduction in funding for local government in recent years. Since 2010 the Council's core funding has reduced by 52% and the Government has outlined provisional funding levels to 2019/20 which, if confirmed, will result in a total reduction in funding over the period from 2010 of 67%.

5. In this context, the report provides an update to the Financial Strategy and Medium Term Financial Plan for the period 2017/20 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.

Review of Budget Strategy for 2016/17

6. Before considering the Council's forecast budgetary position from 2017/18 onwards, it is worthwhile reviewing the budget strategy for 2016/17 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 2016/17

Strategy Area	Proposal	Approved	Financial Impact £000
Council Tax	Increase in Council Tax of £5	Increase of £4.78 (1.99%)	+5k
Budget Growth	No Growth	Growth of £67k	+67k
Budget Savings	Savings of £1.420m	Savings of £1.141m	+279k
Net Impact			**+351k**
Use of Reserves	Use of Reserves £1.919m	Use of Reserves £2.270m	(351k)
Balanced Budget			**-**

7. As Table 1 indicates, in comparison to the proposed budget strategy, the decisions taken to agree the final budget for 2016/17 resulted in a budgeted increase in costs which was met by an increase in the use of reserves.

8. Councillors will recognise that reserves are a finite resource and that the ongoing cost burden of these decisions cannot continue to be met from reserves indefinitely. Given the trajectory for core funding this issue will have to be addressed by permanent reductions in net expenditure over the medium term as the level of reserves decline.

Pendle's Funding Outlook 2017/20

9. 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 is declining in significance as the Government continues to phase out this 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 if positive progress is made on these matters there will still be a time-lag between local growth developments and any additional funding.

10. In February 2016, as part of the final local government settlement for 2016/17, the Government outlined the 'offer' of a four year settlement to Councils and set out provisional funding allocations for each to the end of 2019/20. Councils have until the 14th October 2016 to decide whether to accept the offer of a four year settlement. If the Council opts to take up the offer it will need to submit an efficiency plan in support of its application.

11. Recent guidance has confirmed that efficiency plans do not need to be their own stand-alone document. They can be combined with the MTFP or linked with the strategy developed for the use of capital receipts flexibility (see paragraphs 56 – 60 below for more information on this). Within the efficiency strategy, the authority will be expected to show how a four-year settlement will bring about opportunities for further savings. Where appropriate, the plans should be worked up in conjunction with public sector partners and linked to devolution plans.

12. For Pendle the provisional funding allocations for 2017/18 onwards are currently as set out in the table below:

Table 2: Forecast of core government funding to 2019/20

Year	Revenue Support Grant £'000	New Homes Bonus £'000	Sub-total £'000	Estimated share of NNDR £'000	Total Core Funding £'000	Change % Annual	Change % Cumul.
2015/16	3,904	952	4,856	3,671	**8,527**		
2016/17	3,013	1,089	4,102	3,595	**7,697**	(9.7%)	(9.7%)
2017/18	2,210	1,104	3,314	3,666	**6,980**	(9.3%)	(18.1%)
2018/19	1,707	693	2,400	3,774	**6,174**	(11.5%)	(27.6%)
2019/20	1,145	665	1,810	3,895	**5,705**	(7.6%)	(33.1%)

13. As the Table indicates, it is estimated on current projections that the Council's funding will have reduced from £8.5m in 2015/16 to £5.7m in 2019/20, a reduction of £2.8m or 33.1%.

14. Whilst the Government has set out the above allocations it has also said it will need to take account of future events such as the transfer of functions to local government, transfers of responsibility for functions between local authorities, mergers between authorities and any other unforeseen events. However, barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement, the Government expects these to be the amounts presented to Parliament each year.

New Homes Bonus Allocations

15. The Council will receive £1.089m in 2016/17 comprising £952k funding for the period up to 2015/16 plus an additional £137k for New Homes/Empty Properties brought into use between October 2014 and October 2015.

16. Earlier this year, the Government consulted on technical reforms to the New Homes Bonus regime with the objective of 'sharpening the incentive' provided by the scheme.

17. A response was submitted on behalf of the Council by the deadline in March. The consultation outlined potentially significant changes to the scheme including:

- Making payments over a 4 (or shorter period) rather than 6 years as now;
- Bonus payments reduced for years when no Local Plan is adopted;
- Reducing payments where homes are allowed on appeal;
- Removal of 'deadweight' via a baseline (i.e. assumed level of new homes that would have been built regardless of the incentive).

18. At this time there has been no response from Government to the consultation. Hence, for the purposes of financial planning the assumed allocations to 2019/20 are as shown in table 2 above.

Council Tax

19. When approving the budget for the current financial year in February, Council agreed a 1.99% increase in Pendle's share of the council tax at Band D. This resulted in a £4.78 increase giving rise to a Band D council tax for Pendle of £245.16. This was the first increase in Pendle's share of council tax since 2008/9 and unlike recent years, the Government did not provide grant support to help councils freeze council tax.

20. As part of the final local government finance settlement for 2016/17, the Government amended the referendum principles to allow district councils to increase their council tax by up to £5 without the need for a referendum. The government's forward projections of council spending power retain this assumption and this has been reflected in the medium-term financial plan.

Business Rates – move to 100% local retention

21. Councillors will be aware that the Government has signaled its intention for local government to retain 100% of business rates by the end of this parliament. This was confirmed in the Queens Speech on the 18th May as part of the Local Growth and Jobs Bill. Currently, business rate income is shared on the basis of 50% retained centrally (government) and 50% retained locally (Pendle 40%, County 9% and Fire 1%).

22. In preparation for this, a major programme of work has commenced looking at various aspects of the reforms, led by DCLG and the LGA. Various work streams have been set up to consider the following aspects:

- The design of the system;
- Consideration of 'needs' and 'redistribution' in the new system;
- What additional/new responsibilities should transfer to local govt under the new system;
- Local tax flexibilities (as part of the overall Steering Group)

23. The local government sector has, for some time, lobbied for a greater share of business rates income so generally has welcomed the proposal albeit that the detail has yet to be resolved. It may be some time before clarity emerges on the key components of the new system in so far as they impact on Pendle.

Estimated Balances and Reserves

24. 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 updated analysis of Balances and Reserves is underway linked to the closedown of the Council's accounts for 2015/16. A report on this work will be presented to the June meeting of the Executive. This will also consider the scope to rationalise the current mix of reserves and the extent to which any could be transferred to the Budget Strategy Reserve to help smooth the transition to a lower cost base over the medium term.

25. The key issues to note at the present time in relation to 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);

- 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 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.

26. 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 projected future resources is a key theme of the Council's Financial Strategy.

Medium Term Financial Plan 2017/20

27. Work has been ongoing to update and roll forward the Council's MTFP for the period 2017/20. This takes into consideration decisions on the budget for 2016/17 and the outcome of this work forms the basis of this report. Table 3 below provides a summary of the MTFP 2017/20 whilst a more detailed analysis is provided at **Appendix A** (which, at this stage, excludes any use of reserves):-

Table 3: Medium Term Financial Plan 2017/20 (*No Use of Reserves*)

	Approved Budget 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000
Net Expenditure	14,450	15,009	16,721	17,115
Less Retained Business Rates	(3,595)	(3,666)	(3,774)	(3,895)
Less Revenue Support Grant	(3,013)	(2,210)	(1,707)	(1,145)
Fiscal "Gap"	**7,842**	**9,133**	**11,240**	**12,075**
Collection Fund Surplus – C. Tax	(408)	(200)	(100)	0
Collection Fund Surplus – NNDR	517	612	0	0
Council Tax Income	(5,681)	(5,840)	(6,001)	(6,165)
Local Funding "Gap"	**2,270**	**3,705**	**5,139**	**5,910**

Source: Appendix A

28. As Table 3 above shows, **before considering the use of reserves**, there is a forecast deficit on the Council's MTFP of £5.9m by 2019/20 with the most immediate issue being a budget shortfall in 2017/18 of c£3.7m **assuming no action is taken to deal with this shortfall.**

29. 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 B** and Councillors are asked to note these at this stage.

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

   a) ***Localisation of Support for Council Tax (LCTS)*** – Councillors approved the LCTS Scheme for 2016/17 at the Council Meeting in December 2015. It was agreed that the level of support for working-age claimants would remain at a maximum of 80%.

   For the purposes of developing the budget for 2017/18, it is intended, subject to Executive approval to consider the ongoing affordability of the current scheme as well as addressing a number of technical changes that are required in response to government policy changes linked to wider welfare reforms. A report on this matter is presented elsewhere on this agenda.

   b) ***Waste Services (Recycling)*** - The Medium Term Financial Plan does now reflect the expected loss of the cost sharing income which is currently received from the County Council. Pendle currently receives £693k per annum under this arrangement; however, the County Council has confirmed that this will end in March 2018. Hence, all other things being equal there will be an equivalent increase in the Council's net cost of services from 2018/19. At this stage, we have not assumed any compensatory income, either from recycling credits or sales of recyclables and hence the MTFP currently reflects the 'worst case' scenario in respect of this issue. A wider review of waste collection has been undertaken by the County and Districts across Lancashire and work linked to this remains ongoing.

The Financial Strategy 2017/20

31. The Local Government Finance Settlement for 2016/17 sets out a challenging outlook for future funding with ongoing reductions in core income; in response it is proposed to continue with the strategy adopted in recent years which is built on the following themes:

   - **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. Where permitted 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.

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

Growing

Growth in Retained Business Rates Income

33. 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. The adopted Core Strategy includes a strategic employment site to facilitate the extension of Lomeshaye Industrial Estate.

34. To put this in some context, the Council's business rates tax base is currently £53m. 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).

Pooling of Business Rates

The Lancashire Business Rates pool is now established having been formally designated as part of the local government finance settlement for the current year. Under the pooling arrangements the Council retains 90% and the County Council 10% of any levy which would otherwise have been paid to the Government. The downside risk is the Council forgoes any protection afforded by the safety net mechanism. This emphasises the importance of effective monitoring and reserve provisioning to mitigate this risk. More information on this will feature in the 2015/16 outturn report to the June meeting of the Executive.

Growth in New Homes Bonus

35. 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. However, as outlined above the current Bonus scheme is under review with significant changes likely in the near future. Despite this and whilst acknowledging the difficulties of housing development in Pendle, there remains a need to consider what action the Council can take to address the delivery of new housing and benefit from the new homes bonus.

Charging

36. 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 the Summer. 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.

Saving

37. 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 additional income is generated.

38. 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 2017/20

39. 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; savings 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

40. 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.

41. The Executive should note that this is not an exhaustive list. Work to develop these options will continue to build on developments which helped inform the 2016/17 budget 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

42. 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 cannot be relied on indefinitely to balance the budget.

43. More detailed information on the Council's reserves and balances will be presented to the Executive in June when the outturn for 2015/16 is reported. For the purposes of this update of the MTFP the current strategy is assumed:

- *the Minimum Working Balance will remain at £1.250m over the period to 2019/20 (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 review; where possible reserves will be amalgamated with the Budget Strategy reserve to bolster support for the budget*; and

- *an amount of £3.75m will be used from the Budget Strategy Reserves over the next three years (£1.52m in 2017/18, £1.23 in 2018/19 and £1m in 2019/20).* This assumes the Council receives £650k from Housing Pendle over the same period and is able to divert c£1m from other reserves to support the budget.

44. Table 4 below shows the impact of the applying this Strategy on the Council's Medium Term Financial Plan:-

Table 4: Use of Balance and Reserves and the Impact on the MTFP

	Budget 2016/17 £000	Forecast 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000
Local Funding "Gap" (per Table3 above)	**2,270**	**3,705**	**5,139**	**5,910**
Use of Budget Support Reserves	(1,521)	(1,520)	(1,230)	(1,000)
Use of Specific Reserves	(749)	(666)	(100)	(100)
Total Use of Reserves	**(2,270)**	**(2,186)**	**(1,330)**	**(1,100)**
Funding "Gap"	**-**	**1,519**	**3,809**	**4,810**
Year on Year Savings Required	**-**	**1,519**	**2,290**	**1,000**

45. As Table 4 indicates, applying the reserves strategy above will require a further £4.6m to be drawn from reserves but still means that savings of £4.8m are required over the next three years. The most immediate issue being the need to find savings of £1.5m for 2017/18 with the most challenging year being 2018/19 when the cost sharing agreement ends as referred to in paragraph 30 above.

Draft Budget Strategy 2017/20

46. Looking specifically at the Budget Strategy for 2017/20, 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 £3.75m 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*);

47. Applying this Strategy requires estimated budget savings of c£4.8m (as per Table 4 above) to be identified over the next three years, all of which should be ongoing reductions in the Council's budget.

What if less savings are implemented during the next 2 years?

48. Ultimately it is the Council which will determine the overall budget for 2017/18. To inform early consideration of the issues the following comments illustrate the impact of agreeing fewer savings in 2017/18 which would then impact on future year's budgets and the continuing delivery of frontline services.

49. Table 5 shows the potential consequences of implementing savings of only £750k in 2017/18 rather than the current requirement as shown in table 4 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 £2.3m to balance the budget in 2017/18.

Table 5: Medium Term Financial Plan – Impact of £0.75m savings in 2017/18

	Forecast 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000
Local Funding Deficit (see Table 3)	**3,705**	**5,139**	**5,910**
Previous Year's In-Year Savings	-	(750)	(3,578)
Estimated Use of other specific reserves	(666)	(100)	(100)
Estimated Use of Budget Strategy Reserve	(2,289)	(1,461)	0
In Year Savings Achieved / Required	**750**	**2,828**	**2,232**

50. 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 2018/19 the Council will have used in full the projected balance of the Budget Strategy reserve. The savings required in that year grow to £2.8m posing a severe threat to service delivery and the planning to address this must start at the earliest opportunity.

51. Clearly, the above illustration is not a sustainable strategy. Not only will reserves be exhausted, the requirement to reduce expenditure remains and the Council will, by this time, have limited, if any, choices about the service reductions that would be required.

52. 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 requires 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 requested to maintain the cross-party Budget Working Group to explore the options for savings over the medium-term plan period.

Medium Term Capital Programme 2017/20

53. As important as the forecast position on the Council's General Fund Revenue Budget, is the Council's Medium Term Capital Programme (MTCP). **Appendix C** provides a summary of the forecast MTCP showing anticipated expenditure and expected funding.

The forecast MTCP is summarised in Table 6 below. The first two years reflect the 'indicative' position reported to Council in February 2016.

Table 6: Outline Medium Term Capital Programme 2017/20

	Forecast 2017/18 £000	**Forecast 2018/19 £000**	**Forecast 2019/20 £000**
Capital Expenditure (bids)	1,610	1,494	1,420
Less Funding	(550)	(520)	(500)
Unfunded Spending	1,060	974	920
Implied Borrowing Requirement	**1,060**	**974**	**920**
Budgeted Borrowing	(500)	(500)	(500)
Savings Required *1	**560**	**474**	**420**

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

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

a) The above table is based on the capital bids submitted when forming the capital programme submitted to Council in February when the current year's programme was approved. 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 C** 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, 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).

55. The key message from Table 6 above is that, on the basis of current estimates, there is insufficient funding to meet projected demands for capital spending without additional borrowing, the costs of which would fall on the revenue budget compounding the predicted level of savings required. Given the scale of revenue savings required it is arguable whether the Council should undertake *any* prudential borrowing and instead rely on funds generated from the disposal of capital assets as part of the Council's Jobs and Growth strategy.

Flexible use of capital receipts

56. In the Spending Review 2015, the Government announced that it would introduce flexibility for the period of the Spending Review for local authorities to use capital receipts from the sale of non-housing assets to fund the revenue costs of service reform and transformation.

57. In the provisional local government finance settlement for 2016/17, the government confirmed that it would allow councils this additional flexibility and issued guidance to councils. This stated that the flexibility could be used to fund the costs of transformation of services that "generates ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners".

58. Final guidance was issued in March 2016. Most of the detail that was included in the draft guidance remained, including;

- That individual authorities are best placed to decide which projects can use the flexibility;
- A list of possible examples is provided, which is not intended to be prescriptive or exhaustive; this is provided at **Appendix D**;
- Local authorities should have regard to relevant professional guidance, including the Prudential Code for Capital Finance in Local Authorities; The Code of Practice on Local Authority Accounting; and the Treasury Management Code of Practice; and
- It is important that authorities demonstrate the highest standards of accountability and transparency in using this flexibility.

59. The guidance now suggests that an authority should have at least one Flexible use of Capital Receipts Strategy, but this does not have to be a separate document and could be part of the annual budget documents; or it could be part of the Efficiency Plan linked with applying for a four-year Settlement;

60. Although it is recommended that the Strategy be prepared in advance of the year in which the flexibility will be used, failure to have this Strategy does not mean that the flexibility is not accessible. Where the flexibility is used, but no Strategy has been developed, it should be prepared and presented to a full council at the earliest opportunity.

Budget Consultation

61. In recent years, the Council has undertaken a range of consultation on the Council's budget proposals. In advance of the budget setting period for the current year the Leader and Deputy Leader hosted a media briefing which launched details of the financial challenge facing the council at that time. The approach to consultation as part of the preparation of the budget for 2017/18 will form part of the work programme for the Budget Working Group and reported via the Executive. This is likely to include:-

- consultation with staff and Unions;
- the 'Savings Challenge' – engagement with local media and the Pendle community to highlight the issues facing the Council.

62. 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

63. 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 7 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 2017/18:-

Table 7: Forward Timetable for the Development of the Budget 2017/18

Date	Action	Status
May	Update of Medium Term Financial Plan	Completed
June	Budget Working Group established	
June	Completion of Service Plans	
September	Mid-year review of savings options – report to Executive	
October	Refine Medium Term Financial Plan to 2019/20 – decision on the Government's offer of a 4 year funding settlement	
Nov	Early drafting of Budget for 2017/18 and Revised for 2016/17	
Nov/Dec	Provisional Local Government Finance Settlement 2017/18	
Dec	Executive considers initial budget submissions (revenue & capital)	
Dec-Jan 2017	Proposed Draft Budget 2017/18 developed	
Jan 2017	Final Local Government Finance Settlement 2017/18	
Feb 2017	Executive recommends Budget and Council Tax to Council	
Feb 2017	Council sets Budget and Council Tax for 2017/18	

IMPLICATIONS

Policy

64. 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

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

Legal

66. 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

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

68. 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 by 2019/20 to fall by a further 33% from current levels. The cumulative reduction since 2010/11 is closer to 70%. Reductions on this scale pose a significant business risk to the Council and require effective action to be taken.

69. 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.

70. 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.

71. The most immediate issue for the Council is develop plans to save £1.5m in 2017/18 as well as developing other options which will reduce the Council's net expenditure by £4.8m over the period to 2019/20.

Health and Safety

72. 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

73. 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

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

Equality and Diversity

75. 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 – Medium Term Financial Plan 2017/20
Appendix B – Key Assumptions for Medium Term Financial Plan 2017/20
Appendix C – Draft Medium Term Capital Programme 2017/20
Appendix D – List of project examples linked to flexible use of capital receipts

LIST OF BACKGROUND PAPERS

Papers held in Financial Services