

REPORT OF: FINANCIAL SERVICES MANAGER

TO: EXECUTIVE

DATES: 8th DECEMBER 2016

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GENERAL FUND REVENUE BUDGET 2017/18

PURPOSE OF REPORT

1. The purpose of this report is to:-
 - a) update the Executive on the Autumn Statement announced by the Chancellor on the 23rd November;
 - b) obtain approval for the Revised Budget for 2016/17 and to present the **draft** Base Budget for 2017/18 for initial consideration;
 - c) present a budget strategy (including savings proposals) as part of an approach to achieve a balanced budget in 2017/18 (along with outline proposals for 2018/20); and
 - d) request the Executive give consideration to the development of a budget for 2017/18 and for the Medium-term Financial Plan period (to 2019/20).

RECOMMENDATIONS

2. The Executive is recommended to:-
 - a) agree, in view of the seriousness of the Council's forecast financial position, that this report be shared with all Councillors so that they are fully aware of the position;
 - b) note the key points arising from the recently announced Autumn Statement 2016 and the potential implications for local government;
 - c) approve the Revised Budget for 2016/17;
 - d) provide delegated authority to the Financial Services Manager, in consultation with the Executive Councillor for Finance, to prepare and submit the Council's response to the consultation on the provisional Local Government Finance Settlement for 2017/18, details of which are expected prior to the festive period;

- e) note the draft Base Budget for 2017/18, the forecast Medium Term Financial Plan and the assumptions underpinning both;
- f) as part of the development of the Executive's Budget Strategy for 2017/18:-
 - i) note Management Team's initial proposals to achieve a balanced budget for 2017/18 and, in doing so, review the savings proposals shown at [Appendix F](#) with a view to recommending them to Council for implementation;
 - ii) undertake a review of the draft Base Budget for 2017/18 to identify any other areas where further savings proposals should be brought forward for consideration as part of the budget process;
- g) note the outline savings proposals for 2018/19 and 2019/20 and agree that, as a minimum, these options should form the basis of the further work necessary to achieve a balanced budget in these years;
- h) to support the work outlined in (g) above, agree to maintain the Budget Working Group and confirm this should continue as currently constituted (i.e. 2:2:2);
- i) note the financial planning assumption of a Band D council tax increase of £5 (+2.04%) for 2017/18 pending confirmation of the council tax referendum principles as part of the Local Government Finance Settlement for 2017/18;
- j) note the timetable for the remainder of the budget process as set out in the report.

REASONS FOR RECOMMENDATIONS

3. To continue with the implementation of the Council's Financial Strategy and to inform the development of the Council's budget for 2017/18.

ISSUE

Background

4. This report focuses primarily on the Council's revised budget for 2016/17 and the draft base budget for 2017/18. Information is also provided on the Medium Term Financial Plan for 2017/20 to allow the Executive to consider budgetary decisions for next year in the context of the Council's projected medium term financial position. This is crucial given the significant funding reductions faced by the Council and the need for the Executive to take early action to significantly reduce the Council's net expenditure.
5. This report sets out the issues associated with this and proposes a budget for 2017/18 and the medium term for the Executive to consider and, if agreeable, to recommend for adoption by the Council in February. The Executive is advised that this report has been prepared at a time when details of the Provisional Local Government Finance Settlement for 2017/18 are not yet available. In recent years the Settlement has been published in the run up to Christmas and once details are available this may result in changes to the Council's funding compared with the position outlined in this report.
6. Given the recent 4 year funding offer, accepted by this Council, the key areas of uncertainty centre on potential changes to the New Homes Bonus regime together with the detailed implications of the 2017 NNDR revaluation. The Government consulted on the former in March this year and has yet to publish its response. The implications resulting from the 2017 revaluation of business rates should be broadly neutral. However, this cannot be confirmed until we see our numbers and details of any adjustments to be made by DCLG.

7. Whilst the Settlement for local government has yet to be published the Chancellor did announce the Autumn Statement on the 23rd November, elements of which provide an indication of the resource changes applicable to local authorities.

Autumn Statement 2016 – Overview

8. The Government remains committed to the departmental spending plans set out in the previous Spending Review (2015). In addition the Government reaffirmed its commitment to identify a further £3.5bn of savings from public spending in 2019/20 following an Efficiency Review. Up to £1bn of these savings will be invested in priority areas. The Efficiency Review will report on progress in autumn 2017. At this stage there is no indication as to where the additional savings will come from.
9. By way of reminder the funding amounts for the main government departments as set out in the 2015 spending review are shown below. Funding for local government remains an unprotected area of government spending and from the table below can be seen to experience the largest reduction in planned spending. It is important to note that the figures for local government do not include the locally financed element of local government funding (i.e. council tax and business rates so is therefore not a true reflection of the change in funding).

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

10. Whilst the above provides an indication of the Government’s funding of local government, the specific implications for Pendle will not be known until the publication of the provisional Local Government Finance Settlement later this month. Our current projections, as set out in Table 1 below, assume a net reduction in core funding of 34% from current levels by 2019/20.
11. More information on the various measures set out in the Autumn Statement together with the response from the Local Government Association can be found on the LGA website. The LGA published its ‘on the day briefing’ in response to the Statement and this can be viewed at:

<http://www.local.gov.uk/documents/10180/7991192/2016+Autumn+Statement+LGA+On+the+Day+Briefing.pdf/bcb66b43-944d-465d-8537-45f86b48acc3>

Local Government Finance Settlement

Funding for 2017/18

12. Once the provisional settlement is published there is a period allowed for written representations. It is proposed to maintain the Council’s established practice whereby the Chief Finance Officer prepares and submits the Council’s response in consultation with the Executive Councillor for Finance. If agreeable, the Executive is asked to provide delegated authority to the report author for this purpose.

13. The level of revenue support grant should be consistent with the figures announced as part of the Government's 4-year funding offer but as mentioned above there remains uncertainty regarding New Homes Bonus and business rates income. The latter stems mainly from the implications of the 2017 business rates revaluation.
14. Pending publication of the Settlement, the forecast funding position to 2019/20 is broadly as set out in the last report to the Executive in May. Table 1 below summarises the estimate of core revenue funding the Council is expected to receive over the next 3 years:-

Table 1: Estimate of Core Revenue Funding for 2016/17 to 2019/20

	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	3,476	3,578	3,693
Add Revenue Support Grant	3,013	2,210	1,707	1,145
Total	6,608	5,686	5,285	4,838
less Council Tax Support Grant	-1,236	-1,236	-1,236	-1,236
less Homelessness Grant	-97	-97	-97	-97
'Formula Grant' (equivalent)	5,275	4,353	3,952	3,505
Add New Homes Bonus	1,089	1,104	693	665
Estimate of Funding	6,364	5,457	4,645	4,170
Cumulative change since 2010/11	-52%	-59%	-65%	-68%

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

	£000	£000	£000	£000
Individual Authority Business Rates	7,689	7,651	7,877	8,129
Tariff Payment to Government	(4,094)	(4,175)	(4,299)	(4,436)
Estimate of Retained Business Rates	3,595	3,476	3,578	3,693

15. As the table above indicates, it is currently estimated that the Council's funding will fall from £6.4m in 2016/17 to £4.2m in 2019/20, a reduction of £2.2m (and a cumulative reduction of 68% since 2010/11).

Revised Budget 2016/17

16. The Executive has received quarterly Strategic Monitoring reports during the year providing details of the budget monitoring that has been undertaken. Table 2 below provides a summary of the revised budget for 2016/17 with a detailed analysis provided at [Appendix A](#). This indicates that, in comparison to the approved budget for the year, it is estimated that there will be an underspend of £102k for the year.

Table 2: Revised Budget 2016/17

	Approved Budget 2016/17 £000	Revised Budget 2016/17 £000	Variance £000	Variance %
Net Cost of Services	16,920	16,798	(122)	(0.72)
Corporate Income/Expenditure	(2,165)	(2,144)	21	0.97
Net Expenditure	14,755	14,654	(101)	(0.68)
Use of Specific Reserves	(2,797)	(2,798)	(1)	(0.04)
Net Expenditure	11,958	11,856	(102)	(0.85)
Budget Requirement	12,180	12,180	-	-
Contribution to / (from) the Budget Support Reserve	222	324	102	45.95

Source: Appendices A and B

17. The key variances between the approved and revised budget which contribute to the forecast underspend of £102k are as follows:-
- Housing Benefit – net additional expenditure of £152k on rent allowances;
 - Net reduction in waste collection costs of £19k mainly due to savings on pooled transport;
 - Business Rates – additional entitlement to Section 31 grant of £30k to compensate for extra costs of business rate relief;
 - Savings on the Minimum Revenue Provision and external interest costs totaling £59k arising mainly from timing differences in capital expenditure and associated borrowing;
 - Income – increased income of £131k across a range of services (e.g. countryside access £20k, trade waste £21k, housing £26k, contributions from local councils £50k);
 - Reduced premises related expenditure of £17k.
18. An analysis of the major variances (+/- £10,000) is provided at [Appendix B](#). Assuming the underspend of £102k is maintained up to the year end, this will mean that the amount contributed to the Budget Support Reserve to balance the Council’s budget for 2016/17 will increase to £324k compared with the approved budget contribution of £222k. This position is skewed by the various reserve adjustments agreed by Council and the Executive earlier this year which has resulted in additional transfers being made in to the Budget Support reserve. This was done in order to increase the reserve and create the level of reserve funding assumed in the medium-term financial plan to 2019/20.
19. The Revised Budget 2016/17 reflects the current best estimate of the likely outturn position for the year. Work will continue on the monitoring of the budget for the remainder of this financial year and any further variations will be reported as part of the periodic monitoring reports.

Base Budget 2017/18

20. Work has been underway in the last few months on the development of the Council’s Base Budget for next year. Table 3 below provides a summary of the draft base budget for 2017/18 compared with the approved budget in the current year:-

Table 3: Base Budget 2017/18

	Approved Budget 2016/17 £000	Base Budget 2017/18 £000	Change £000	Change %
Net Expenditure	14,755	14,302	(453)	(3.07)
Use of Specific Reserves	(2,797)	(861)	1,936	69.22
Net Expenditure (after Specific Reserves)	11,958	13,441	1,483	12.40

Source: Appendices A and C

21. The key changes in the budget are set out in [Appendix C](#). Throughout the development of the Council’s Financial Strategy for 2017/20, a number of issues have been highlighted that will impact on the budget for 2017/18 (and future years) and which may need to be addressed. In some cases, progress has been made, and in others there is further work to be undertaken. Details are provided in [Appendix D](#).

The Strategy for Reserves and Balances

22. An analysis of Balances and Reserves is provided at [Appendix E](#). At the meeting of the Executive in May 2016, the following strategy for using Balances and Reserves was proposed:-

- the Minimum Working Balance to remain at £1.250m over the period to 2018/19 with the balance on the Bond Reserve (£0.5m) – both sums were subsequently revised downwards following a review of reserves in July and agreed by Council in August to £1m and £0.3m respectively;
- the use of £3.75m from the Budget Support Reserve over the next three years with £1.52m in 2017/18, £1.23m in 2018/19 and £1m in 2019/20 (this assumes the Council will receive £650k from Housing Pendle under specific income sharing arrangements over the same period);
- Committed (Specific) Reserves will be used only for the purposes for which they have been set aside and will be subject to an annual review. The current Medium Term Financial Plan shown below assumes the use of £0.86m of specific reserves in the period to 2019/20;

23. Table 4 below provides an analysis of how non-committed reserves are estimated to be used over the next four years with a residual balance available as at 31/3/20 estimated at £0.9m:-

Table 4: Estimated Use of Non-committed reserves 2017/20

	Estimated Opening Balance £000	Less Committed Reserves*2 £'000	Non-committed (Available) Reserves £'000	Approved / Proposed Budgeted Use £000	In-year Receipt *3 £000	Estimated Closing Balance £000
Reserves 31/3/16*1	11,053	(5,650)	5,403			
2016/17	5,403			(1,437)	200	4,166
2017/18	4,166			(1,120)	150	3,196
2018/19	3,196			(1,630)	150	1,716
2019/20	1,716			(1,000)	150	866
Total				(5,187)	650	

*1 – Includes Minimum Working Balance and Liberata Bond Reserve;

*2 – More information on committed reserves is shown in Appendix E – value is shown net of tfrs agreed in July 2016.

*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.

24. The profiled use of reserves has been revised in this latest update of the medium-term financial plan as shown below:

	<i>May 2016 Report</i>	<i>December 2016 Report</i>
	£'000	£'000
Proposed use in 17/18	1,520	1,120
Proposed use in 18/19	1,230	1,630
Proposed use in 19/20	<u>1,000</u>	<u>1,000</u>
Total over 3 years	3,750	3,750

25. The reason for this is to reduce the savings requirement in 2018/19. Councillors will recall that this was originally £2.3m compared with £1.5m in 2017/18 and £1m in 2019/20. The Executive is asked to note and endorse this revision which results in a £400k transfer in the use of reserves from 2017/18 to 2018/19. It is also intended to carry out a further review of all reserves in 2017/18 following the completion of the accounts for this year to establish what scope, if any, there may be to divert additional funding to the Budget Support Reserve.

Medium Term Financial Plan 2017/20

26. In developing the base budget for 2017/18, work has also been undertaken to update the Medium Term Financial Plan to 2019/20. The assumptions underpinning the development of the Medium Term Financial Plan are set out at [Appendix D](#). Table 5 below provides a summary of the latest financial forecast:

Table 5: Medium Term Financial Plan 2017/20

	Budget 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000
Net Revenue Expenditure	14,302	15,763	16,381
<u>Less:</u>			
Government Grant (Revenue Support Grant)	(2,210)	(1,707)	(1,145)
Retained Business Rates (net)	(3,054)	(3,578)	(3,693)
Council Tax Income (incl. Colln Fund Surplus)	(6,040)	(6,102)	(6,165)
Total Funding	(11,304)	(11,387)	(11,003)
Local Funding Gap	2,998	4,376	5,378
Use of Reserves	(1,981)	(1,630)	(1,000)
Cumulative Savings Required	1,017	2,746	4,378
Previous Year's Savings (assumes all achieved)		(1,017)	(2,746)
In-Year Savings Requirement	1,017	1,729	1,632

27. As the table indicates, to achieve a balanced budget in 2017/18, ongoing savings of at least £1.017m are required, with a further £1.729m required in 2018/19 and £1.632m in 2019/20. **Cumulatively, on the basis of current forecasts, the savings required over the next 3 years total £4.38m.** Note the savings requirement shown for 2017/18 is net of those savings agreed by Council in October but exclude those linked to the possible contract extension with Liberata – the latter remains subject to approval by Council later in December.

The Financial Strategy for 2017/20

28. The Council has a well-established financial strategy structured around three key themes, namely Growing, Charging and Saving with each summarised below:
- **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.

29. In November 2015 the Council underwent a Peer Challenge Review led by the Local Government Association. As part of this process the Council was revisited in late November 2016 by the same review team. The team was here to check on our progress against the action plan developed after their initial visit last year. In their informal feedback at the end of this latest visit the team commented positively on the strategy and commended the Council for how this has been communicated. However, in view of the financial challenge facing the Council the team did suggest that we should consider adding a fourth strand, namely that of STOP. Their view is that to make the savings required it is necessary for the Council to be explicit about what are not its priorities and stop doing them.
30. Clearly, this is a challenging message but it is included here as it does emphasise the scale of the issue facing the council as we seek to identify savings of c£4.3m over the next 3 years.

Growing

Business Rates Income

31. 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.
32. To put this in some context, the Council's business rates tax base is currently £52.8m. In broad terms, for every £1.5m growth in the Taxbase (equivalent to, say, an additional Superstore), the Council's share of business rate income would increase by c£300k per annum (assuming no other changes).
33. From April 2017 the new rating list comes into force following the 2017 revaluation. Details of this were reported to the last meeting of the Executive. The gross rateable value within Pendle is projected to fall from £52.8m to £51.6m. However, the Government intends to reset the tariff payment we make under the current scheme to compensate us for the loss of rates income arising from the revaluation. The intention is that councils should be no worse off as a result of the revaluation. However, this will not be confirmed until we see our numbers for next year when the local government finance settlement is announced.
34. In advance of this we had to take a decision by the end of October on whether to remain in the Lancashire Business Rates Pool for next year. Our projections for the current year are that we would have to pay a levy to Government in the order of £230k to £300k. We will avoid this by being in the Pool. Provisional estimates for next year also support remaining a member of the pool in 2017/18 and hence this was confirmed to Ribble Valley Borough Council (the lead authority for the pool following consultation with the Leader and the Finance Portfolio Holder).
35. Any member of the pool can opt out of the pool within a period of 28 days following publication of the local government finance settlement in December. However, in the event that this does happen the whole pool would be revoked and the significant benefits accruing to all other pool members would be lost.

New Homes Bonus

36. This has become a significant source of revenue income for the Council in recent years with £1.09m receivable in the current year. Most of our entitlement has originated from the positive work done to reduce the number of empty homes in the Borough rather than from new homes being built. Indications are that this remains the case for determining our share of new homes bonus for 2017/18.

37. However, the Government consulted on potential reforms to the new homes bonus regime earlier this year. This closed in March and no details have yet been announced regarding the Government's intentions. We expect this to form part of the local government finance settlement this month. At the time of consulting, the Government's stated preference was to divert £800m from New Homes Bonus to fund Adult Social Care.
38. Depending on the final option(s) chosen by Government there may be reductions to our projected allocations of New Homes Bonus over and above those already assumed within the current financial plan.

Charging

39. Annually, the Council reviews its fees and charges. The review for 2017/18 was reported to the Executive in September following prior consideration of various proposals by the Budget Working Group. The proposals agreed generated additional income including the decision, approved by Council in October, to implement new charges for the pest control service from April 2017.
40. A number of other proposals that have been considered and rejected previously by Councillors are also resubmitted at [Appendix F](#). These include the introduction of charges for services that residents value, for example, for the collection of Bulky Household Waste; administrative charges for replacement Wheeled Bins. In view of the savings required these proposals are resubmitted for further consideration.

Saving

41. Whilst the Business Rate Retention scheme and New Homes Bonus offer opportunities to increase the Council's income, any growth in the near term will not make up for the significant reduction in Government grant or resolve the Council's budget deficit.
42. Equally, the Council's ability to charge for services or reduce the extent of discounts will not, in isolation, generate sufficient income to make up for the funding shortfall faced by the Council. As a result the Council needs to continue with its efforts to reduce expenditure in other ways to ensure that it has a balanced budget over the medium term. This was a point highlighted again by the Peer Review team during their recent visit. Whilst they acknowledged our progress to-date they have urged us to quicken the pace of change to generate the level of savings required.
43. Work has been ongoing to identify potential savings options that could be implemented over the period to 2019/20. Given the magnitude of savings required, and bearing in mind the savings already achieved since 2010, an impact on frontline services is unavoidable.
44. An analysis of savings proposals for 2017/20 is provided at [Appendix F](#); these total £3.202m and a summary of the proposals is provided in Table 6 below:-

Table 6: Savings Proposals

	Budget 2017/18 £000	Indicative 2018/19 to 2019/20 £000	Total 2017/20 £000
Agreed Savings (Council 10/16)	600	0	600
Proposed / Indicative Savings	1,050	1,552	2,602
Total Savings	1,650	1,552	3,202

45. The following issues should be noted about the savings proposals:-

- a) the 'agreed' savings shown above for 2017/18 were accepted by Council in October 2016 and have been built in to the budgets now submitted. Hence, the updated savings' target for next year is now estimated at £1.017m. The saving proposals shown in [Appendix F\(i\)](#) total £1.050m for 2017/18.
 - b) details of the initial set of proposed savings from the Leisure Trust have been considered by the Budget Working Group which met with members of the Trust Board and Trust senior management. The most significant saving from the Trust in next year requires the Council to advance a loan of c£1.1m to the Trust – more information on this is provided in a report on the capital programme elsewhere on the agenda for this meeting.
 - c) no account has been taken at this stage of savings expected to result from an extension of the current contract with Liberata – this matter was reported to the Executive in November but remains subject to approval by Council later this month.
46. Work is ongoing to firm up some of the savings proposals. A narrative supporting each proposal is provided at [Appendix F \(ii\)](#).

Council Tax

47. For the purposes of financial planning only, the medium-term financial plan assumes that Council Tax will increase by £5 in 2017/18 and each year of the plan period. An increase of 1.99% or £5 was the maximum permitted increase in the current year for district councils and these limits are expected to continue over the plan period. We will not get confirmation on this until the local government finance settlement is announced. As with the current year it is not expected that any funding will be made available to Councils in return for a freeze in Council Tax in 2017/18.

Localisation of Council Tax Support Scheme

48. The Council's local scheme of council tax support has operated without any fundamental change, save for the annual uprating of parameters, since 2013/14 when the scheme was first introduced. Whilst Pensioner claimants remain protected under the scheme those of working-age continue to receive support at a maximum of 80% of calculated entitlement.
49. The estimated cost of the scheme in 2016/17 was £6.94m. The latest scheme monitoring indicates that it is likely to cost £6.73m, an underspend of £210k. Pendle's share of this is estimated at £32k. This is primarily a result of a lower than estimated caseload.
50. The proposed scheme for 2017/18 was the subject of a separate report to the Executive earlier in the year. It was resolved to leave the maximum level of support unchanged at 80% for working age claimants and to implement a small number of technical changes to align the scheme with the national housing benefits scheme. Council will be asked to approve the formal scheme for next year on the 15th December.

Medium Term Capital Programme 2017/20

51. A report elsewhere on the agenda for this meeting considers the Medium-Term Capital Programme and the capital project proposals for next year specifically.

Budget Consultation

52. Last year the Budget Working Group considered options for public engagement and felt it was very important to get the message across to the wider community as to the financial challenge facing the Council as well as outlining the savings being considered by the Council. A media briefing was held to help launch this. The financial challenges leaflet has recently been updated and is available on the Council's website at: http://www.pendle.gov.uk/homepage/27/our_financial_challenges
53. Other consultation on the budget is planned as follows:-
- budget papers will be referred to the Scrutiny Management Committee and Area Committees to ensure that the budget discussions are held in an inclusive manner;
 - in accordance with the statutory requirement to consult with the business community, consultation is planned with local industry and employers and will be conducted through the East Lancashire Chamber of Trade.

Management Team's Budget Proposal for 2017/18 (and to 2019/20)

54. Subject to confirmation of the financial settlement for 2017/18, and further to the analysis above, Management Team proposes the following budget strategy for 2017/18 for councilors to consider:-
- an increase in Council Tax of £5 at Band D (equivalent to an increase of 2.04%);
 - implementation of all of the savings identified at **Appendix F** which will reduce the Council's net expenditure by £1.050m in 2017/18;
 - use of reserves at a level sufficient to achieve a balanced budget albeit within the parameters of the Reserves Strategy set out above.
55. Table 7 below provides details of Management Team's initial budget proposal for 2017/18:-

Table 7: Management Team's Initial Budget Proposals for 2017/18

	Budget 2017/18 £000	Indicative 2018/19 to 2019/20 £000	Total 2017/20 £000
Savings Requirement	1,017	3,361	4,378
Growing	0	0	0
Charging	135	141	276
Saving	915	1,411	2,326
Total Proposals	1,050	1,552	2,602
Shortfall / (Surplus)	(33)	1,809	1,776

56. The Executive should note that the budget proposal set out above is not without its risks, including the following:-
- the level of savings required continues to pose a significant challenge for the Council. To achieve savings on the scale necessary is likely to require the Council to withdraw from some services and consider alternative service delivery models for others including further collaboration with the private as well as public and/or third sectors;

- using the Council's reserves to balance the budget simply postpones rather than prevents the need for savings. The longer the savings are put off, the greater the challenge will become with less time to react in a planned way;
- using reserves at a rate greater than that presently assumed exposes the Council to the risk of costs for which there are no identified resources; in this scenario the Council would be forced to make reactive savings to balance the budget.

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

57. If the Council fails to make the level of savings currently required the shortfall can only be made up from finite reserves. This simply pushes the balance of savings required on to the next year and will exhaust the available balance of non-committed reserves quicker than planned. This is illustrated in Table 8 below which sets out a scenario under which savings of only £750k per annum are achieved over the next 2 years:-

Table 8: Achieving savings of only £750k in each of the next 2 years

	Budget 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000
Savings Not Achieved b/fwd	-	267	1,246
Minimum Level of Savings Required (see Table 5)	1,017	1,729	2,632
Balance of Savings Required	1,017	1,996	3,878
In Year Savings 2017/18	(750)	-	-
In Year Savings 2018/19	-	(750)	-
In Year Savings 2019/20	-	-	-
Savings Not Achieved	267	1,246	-
Additional Use of Reserves	(267)	(1,246)	(353)
Budget Deficit	0	0	3,525

Addendum: Impact on Non-Committed Reserves

	2017/18 £000	2018/19 £000	2019/20 £000
Opening balance of non –committed reserves (per Table 4)	4,166	2,929	203
In year contribution to reserves (income from Hsg Pendle)	150	150	150
Net budgeted use of reserves	(1,120)	(1,630)	(353)
Additional use of reserves if savings <u>not</u> achieved	(267)	(1,246)	0
Total	2,929	203	0

58. As the table above illustrates, if lower savings are achieved, combined with no increase in funding, the only option left for the Council to balance the budget each year is to use additional reserves. However, owing to the scale of the projected shortfall the Council would exhaust all bar £0.2m of non-committed reserves in 2018/19. The position in 2019/20 is even more serious with an in-year savings requirement of £3.5m. The Council must start to address this situation now as if it fails to do so it faces having to make drastic reductions in service with no time to plan for a managed transition to a lower cost base.

Next Steps

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

Table 9: Forward Timetable for the Development of the Budget 2017/18

Date	Action	Status
May 2016	Update of Medium Term Financial Plan to Executive	Completed
June–Dec 2016	Development of Budget Strategy Options – Budget Working Group	On-going
June–Nov 2016	Review of local scheme of council tax support	Completed
Nov 2016	Refine Medium Term Financial Plan to 2019/20	Completed
Nov 2016	Early drafting of Budget for 2017/18	Completed
Dec 2016	Media Briefing	TBC
Dec 2016	Executive considers initial budget submission	This report
Dec 2016	Provisional Local Government Finance Settlement 2017/18	Awaited
Dec-Jan 2017	Development of draft Budget 2017/18 completed	In Progress
Jan/Feb 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	
Mar / Apr 2017	Service Plans completed and aligned with the approved budget	

IMPLICATIONS

Policy

60. The Council's General Fund Revenue Budget supports the delivery of services in pursuance of the strategic objectives set out in the Strategic Plan. The position reported for 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 budget base over the medium term planning period. The Council will also need to review policies on the delivery of existing services to determine whether the existing policy direction is affordable within the resources available.

Financial

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

Legal

62. In accordance with s32 and s43 of the Local Government Finance Act 1992 (LGFA 1992), annually the Council must calculate and approve its budget requirement for the forthcoming financial year.

63. Section 25 of the Local Government Act 2003 also requires the Financial Services Manager, as the officer having responsibility for the administration of the Council's financial affairs, to report to the Council on the robustness of the budget estimates and adequacy of financial reserves when determining its budget requirement under the LGFA 1992. This report will be submitted for consideration by the Council when it deliberates the budget submission from the Executive in February 2017.

Risk Management

64. In relation to the financial risks faced by the Council, there needs to be a balance between maintaining and improving key frontline service delivery and the sustainability of the financial standing of the Council.
65. The Medium Term Financial Plan currently indicates a significant deficit that is unsustainable. Even using reserves to smooth the effect of expected reductions in funding, still requires substantial budget savings to be made to maintain a balanced budget. Using reserves in excess of the amounts set out in the budget strategy proposed would, in the absence of an increase in Government funding, present a real risk to maintaining basic levels of service and require significant savings to be identified in later years of the plan period.
66. 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

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

Sustainability

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

Community Safety

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

Equality and Diversity

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

APPENDICES

- Appendix A - Summary General Fund: Revised Estimates 2016/17 and draft Base Budget 2017/18
Appendix B - Budget Variations 2016/17 – Revised Budget compared to Approved Budget
Appendix C - Budget Variations – Approved Budget 2016/17 to draft Base Budget 2017/18
Appendix D - Main Assumptions used to develop Base Budget 2017/18 and MTFP 2017/20
Appendix E - Balances and Reserves
Appendix F(i) - Proposed Budget Savings 2017/20
Appendix F(ii) - Supporting Narrative for Proposed Budget Savings Proposals 2017/20
Appendix G - Initial Screening of Budget Proposals for Equalities Impact 2017/18

LIST OF BACKGROUND PAPERS

Papers held in Financial Services