Borough of Pendle

REPORT OF:	**FINANCIAL SERVICES MANAGER**
TO:	**EXECUTIVE**
DATES:	**25th MAY 2017**

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FINANCIAL STRATEGY
UPDATE OF THE MEDIUM TERM FINANCIAL PLAN 2018/21

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) 2018/21 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 2018/19 to 2020/21 as explained in the report and in particular the increased uncertainty regarding the timing and implications of the move to 100% local retention of business rates;

   b) note the proposed Financial Strategy for 2018/21 (and the supporting Medium Term Financial Plan 2018/21 as shown at **Appendix A**) as set out in the report and in doing so the strategy for the use of Balances and Reserves over the same period;

   c) agree to retain the cross-party Budget Working Group and request that it:

      i. commences the detailed work required on the main areas proposed for review in the current year as outlined in paragraph 56 of this report;

      ii. develops charging and savings proposals to reduce the Council's net expenditure by £1.4m for consideration as part of the budget for 2018/19;

      iii. identifies further charging and savings options to deal with the balance of the budget deficit to 2020/21;

   d) endorse the intention to commission external support to help develop the Council's submission to the Government's Fair Funding review with the costs to be met within existing budgets

e) note that a separate report on the Medium Term Capital Programme will be presented to the next meeting of the Executive in June.

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. Between 2010 and the current financial year the Council's core funding has reduced by 59%. In addition the Government has outlined provisional funding levels up to and including 2019/20 which will, unless changed, result in an overall reduction in funding over the period from 2010 to 2020 of 70%.

5. In this context, the report provides an update to the Financial Strategy and Medium Term Financial Plan for the period 2018/21 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 2017/18

6. The extent to which the budget strategy for the current year varied from the final approved budget for the year has a bearing on the starting position for this update of the medium-term financial plan. A 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 2017/18

Strategy Area	Proposed	Agreed	Financial Impact £000
Council Tax	Increase in Council Tax of £5	Increase of £5.00 (2.04%)	NIL
Budget Growth	No Growth	Growth of £8k	+8k
Budget Savings	Savings of £1.726m	Savings of £1.403m	+323k
Net Impact			**+331k**
Use of Reserves	Use of Reserves £1.573m	Use of Reserves £1.904m	(331k)
Balanced Budget			-

7. As Table 1 indicates, in comparison to the proposed budget strategy, the decisions taken to agree the final budget for 2017/18 resulted in a budgeted increase in costs of £0.3m which was met by an increase in the use of reserves.

8. Reserves are a finite resource and as such they cannot be relied on to meet the ongoing cost burden of these decisions indefinitely. Given the trajectory for core funding this issue has to be addressed by permanent reductions in net expenditure over the medium term as the level of reserves decline.

Funding Outlook 2018/21

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 in readiness for the implementation of 100% local retention of business rates.

10. New Homes Bonus, whilst still available is now payable for a shorter period (4 years rather than 6) and only on the number of additional Band D equivalent properties above a specified threshold (123 homes was the threshold for Pendle in 2017/18).

11. As has been said in previous updates on the Council's financial position, to develop the conditions locally in which to grow funding streams such as business rates and new homes bonus takes time. Assuming such conditions can be developed it is unlikely that growth in these income streams will deliver significant benefits until the back end of the plan period.

12. The Council formally accepted the Government's offer of a four year funding settlement in 2016/17 and hence we know, barring exceptional circumstances, what our core grant funding will be up to 2019/20. However, beyond this, the final year of the plan period is very difficult to estimate at this time owing to expected changes in the funding of local government, in particular the implementation of 100% business rates retention.

13. The projected funding allocations for the Council from 2018/19 onwards are as shown in the table below:

Table 2: Forecast of core government funding to 2020/21

Year	Revenue Support Grant £'000	New Homes Bonus £'000	Sub-total £'000	Estimated share of NNDR £'000	Total Core Funding £'000	Change %	
						Annual	Cumul.
2016/17	3,013	1,089	4,102	3,595	**7,697**		
2017/18	2,210	995	3,205	3,552	**6,757**	(12.2%)	(12.2%)
2018/19	1,707	525	2,232	3,666	**5,898**	(12.7%)	(23.4%)
2019/20	1,145	326	1,471	3,798	**5,269**	(10.7%)	(31.5%)
2020/21	900	220	1,120	3,893	**5,013**	(4.8%)	(34.9%)

14. As the Table indicates, it is estimated on current projections that the Council's core funding will have reduced from £7.7m in 2016/17 to £5m by 2020/21, a cumulative reduction of £2.7m or 35% over the period shown above.

New Homes Bonus (NHB) Allocations

15. The Council will receive £995k in 2017/18 comprising £895k funding for the period up to 2016/17 plus an additional £100k for New Homes/Empty Properties brought into use between October 2015 and October 2016.

16. The current year is the first year of the revised NHB regime following a consultation by Government during 2016. This resulted in two significant changes to the payment of NHB, namely to pay it over a 4 rather than 6 year period going forward, and to only pay it on units of additional housing above a specified threshold – this has been set nationally at 0.4% of the number of Band D equivalent dwellings (c123 dwellings in this year for Pendle). As a result of these changes the medium-term financial plan currently assumes the following amounts of NHB:

New Homes Bonus (£m)	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Expected Duration in payment
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	Years
2011/12 allocation	0.101	0.101	0.101	0.101	0.101	0.101					6
2012/13 allocation		0.092	0.092	0.092	0.092	0.092					5
2013/14 allocation			0.179	0.179	0.179	0.179	0.179				5
2014/15 allocation				0.341	0.341	0.341	0.341				4
2015/16 allocation					0.238	0.238	0.238	0.238			4
2016/17 allocation						0.137	0.137	0.137	0.137		4
2017/18 allocation							0.100	0.100	0.100	0.100	4
2018/19 estimated allocation								0.050	0.050	0.050	4
2019/20 estimated allocation									0.040	0.040	4
2020/21 estimated allocation										0.030	4
Total Allocation	**0.101**	**0.193**	**0.372**	**0.714**	**0.952**	**1.089**	**0.995**	**0.525**	**0.327**	**0.220**	

<u>Council Tax</u>

17. The Council's share of council tax at Band D is currently £250.16. Councillors approved an increase of £5 when setting the budget for this year. Current council tax referendum principles limit district councils to maximum increases of less than 2% and no more than £5 per annum without the need for a referendum. The government's forward projections of council spending power assume authorities will apply the maximum increase each year and hence this has been reflected in the medium-term financial plan.

<u>Business Rates – move to 100% local retention</u>

18. Councillors will be aware of the Government's intention for local government to retain 100% of business rates by the end of this parliament. 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%).

19. In January of this year the Local Government Finance Bill was introduced to the House of Commons. Amongst other things the Bill:

- makes changes to the local government finance system to provide the framework for implementation of 100% business rates retention;
- provides local authorities with additional flexibilities over the operation of business rates in their area;
- implements a range of other business rates measures including adjusting inflation for business rates and providing a number of business rates reliefs for businesses and premises.

20. The Bill was to be considered at Report Stage and Third Reading. However, as the General Election was called and Parliament was dissolved earlier this month the Bill falls and no further action will be taken. It is therefore uncertain as to what will happen next and the timescales for implementing the above reforms. It was expected that 100% rates retention would be implemented by 2019/20 but it would now seem more likely that this will be 2020/21 assuming it remains a priority for the new Government.

21. This is important as the intention behind 100% business rate retention was to move from the current model of funding allocations and end payment of revenue support grant to local authorities; instead moving to a model where authorities become more financially self-sufficient, funding local services from local resources.

22. At the same time, the Government is separately undertaking a Fair Funding Review to devise a new relative needs and resources formula for local government. This will set new authority baselines for the introduction of 100% business rates retention. These changes do not require legislation and are not included in the Bill.

23. Both 100% rates retention and the fair funding review will have financial implications for this Council but at this time they cannot be reliably assessed. The design of the 100% rates retention system is not yet confirmed and various work programmes were in progress prior to the General Election being called looking at key aspects of the scheme.

24. At this time the resources available to the Council for 2020/21 have the greatest degree of uncertainty attached to them within the current plan period. At present the plan assumes ongoing reductions in revenue support grant with business rates broadly increasing each year in line with inflation. These assumptions could be equally under or overstated dependent on the design of the final scheme (e.g. the re-setting of baselines, the split of local shares between County, Fire and District, and the additional responsibilities to be transferred to local government as well as matters such as the centralisation of appeals and arrangements for local pools).

25. The Fair Funding Review provides an opportunity for the Council to make its case in relation to the share of resources it receives and the basis on which these are allocated to the Council based on its ‘needs’ relative to the ‘needs’ of other local authorities. Provided the review still goes ahead post the Election it is intended to commission a piece of work from external advisers to help bolster the Council’s submission and understanding of the issues linked to the review. The cost of this would be managed within existing budgets.

Estimated Balances and Reserves

26. In addition to the sources of funding outlined above the plan considers the level of available balances and reserves and proposes a strategy for their use. An updated analysis of balances and reserves is underway linked to the closedown of the Council’s accounts for 2016/17. As with last year the intention is to report on this work to the June meeting of the Executive. The report will consider the scope to transfer reserve balances to the Budget Support Reserve to assist with the transition to a lower cost base over the medium term.

27. 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 £1.0m as will the funding for the Liberata Bond (£300k) – both amounts were reduced in last year.

- it is currently assumed that the Council will receive **no** further income over the plan period from the VAT Shelter arrangement entered in to with Housing Pendle (now Together Housing) at the time the housing stock was transferred; previous plans had assumed an ongoing income stream from this arrangement. This is currently being reviewed but for planning purposes no further income is assumed.

- certain earmarked reserves (e.g. VAT Partial Exemption Reserve, Insurance Reserve) are 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.

28. It is stressed that whilst using reserves allows the Council to incur expenditure above its ongoing resources, it is not sustainable to continue doing so at current levels; hence the need to align expenditure with projected future resources is a key theme of the Council's financial strategy.

Medium Term Financial Plan 2018/21

29. Work has been ongoing to update and roll forward the Council's MTFP for the period 2018/21. This takes into consideration decisions on the budget for 2017/18 and the outcome of this work forms the basis of this report.

30. Table 3 below provides a summary of the MTFP 2018/21 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 2018/21 (*No Use of Reserves*)

	Approved Budget 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000
Net Expenditure	13,454	14,476	15,105	15,742
Less Retained Business Rates	(3,552)	(3,666)	(3,798)	(3,893)
Less Revenue Support Grant	(2,210)	(1,707)	(1,145)	(900)
Fiscal "Gap"	**7,692**	**9,103**	**10,162**	**10,949**
Collection Fund Surplus – C. Tax	(365)	(200)	(150)	(150)
Collection Fund Deficit – NNDR	419	(100)	(100)	(100)
Council Tax Income	(5,841)	(6,003)	(6,168)	(6,338)
Local Funding "Gap"	**1,905**	**2,800**	**3,744**	**4,361**

Source: Appendix A

31. Table 3 shows, **before considering the use of reserves**, a projected deficit on the Council's MTFP of £4.4m by 2020/21 with the most immediate issue being a budget shortfall in 2018/19 of £2.8m **assuming no action is taken to deal with this shortfall.**

32. The MTFP has been developed on the basis of a range of assumptions. It reflects the ongoing cost of current service delivery and takes into consideration the decisions Councillors have taken when setting the latest budget. The key assumptions are set out in **Appendix B** and the Executive is asked to note these at this stage.

The Financial Strategy 2018/21

33. The Local Government Finance Settlement for 2017/18 sets out a challenging outlook for future funding with ongoing reductions in core income; in response it is proposed to continue with the current financial strategy which is based 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;

- **Stop** spending on lower or non-priority areas. This theme emerged from the follow up visit by the LGA Peer Review team in November 2016 who concluded that "t*he council's financial strategy of 'grow, charge, save' has been effective so far. However, it is time to include 'stop' as part of your analysis. Members need to confirm to officers which services need to be prioritised as resources contract further.*

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

Growing

Growth in Retained Business Rates Income

35. 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.

36. To put this in some context, the Council's business rates tax base is currently £52m. In broad terms, for every £1.5m growth in the Taxbase (equivalent to, say, an additional Superstore), the Council's income would increase by c£300k (assuming no other changes).

Pooling of Business Rates

The Council has remained a member of the Lancashire Business Rates pool for 2017/18. Under current 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 2016/17 outturn report to the June meeting of the Executive.

Growth in New Homes Bonus (NHB)

37. The scope to increase the Council's share of income from NHB has diminished following changes to this funding stream implemented by Government for the current year. The Council's tax base needs to grow by more than 123 Band D equivalent dwellings before we gain any bonus. Under the previous scheme we gained bonus on each additional Band D unit of housing. The bonus is now only paid for 4 years rather than 6 as previously. These changes stem from the Government's decision to divert resources from NHB to fund adult social care.

38. Despite the above changes, and whilst acknowledging the difficulties of housing development in the Borough, it remains important to consider what action the Council can take to influence the delivery of new housing in Pendle so as to benefit from NHB.

Charging

39. The Council reviews its fees and charges annually. The review for 2017/18 will be undertaken in the coming months and will be reported to the Executive during the summer. In doing so, the opportunity will be taken to revisit the introduction of charges for services that residents value, for example, the collection of Bulky Household Waste; and administrative charges for replacement Wheeled Bins.

40. In addition to the above work, consideration will be given of the scope to adopt a more commercial approach where it is appropriate to do so. In recent years the commercialisation agenda has grown within local government and may provide additional income opportunities for the Council drawing on best practice elsewhere in the sector.

Saving

41. 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 will not deliver the scale of additional income required to offset the reduction in core funding. Any measures considered now as a means of increasing income in the above areas could take a significant time to implement before additional income flows are generated.

42. Equally, the Council's ability to charge for services or reduce the extent of discounts will not, in isolation, generate sufficient additional income to make up for the funding shortfall faced by the Council. In view of this, the Council must continue to identify ways in which it can reduce expenditure in other ways to ensure that it maintains a balanced budget over the medium term.

Stop

43. This is a new theme, resulting from the LGA Peer Review as outlined above. It is also the least developed theme under the current strategy. The difficulties of being explicit as to what are not priorities for the Council are acknowledged. Nevertheless, given the forecast reductions in core funding it will be necessary to address this to help ensure limited resources are used optimally to deliver what are the key priorities for the Council.

Strategy for Budget Savings in 2018/21

44. The Council has a good track record of delivering savings since 2010, from when savings totaling £7m have been realised. The budget process for the current year included agreed savings of £1.4m. Many of these savings have been achieved whilst minimising the impact on street level services which the Executive has identified as a priority.

45. Against this backdrop, and the ongoing requirement for significant savings, the 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 builds on the work already undertaken in recent years

46. 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 the delivery and scope of 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 and street level services where possible;

- changing the way residents access Council Services with a continued emphasis on self-serve / automated processes for transactional type activity (i.e. moving to digital by default';

- reviewing the efficiency, scope and delivery 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;

- reviewing the cost of democracy given the change to the Committee system of governance.

47. 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 2017/18 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

48. In support of the above strategy, it is proposed to use balances/reserves to smooth the impact from year to year. However, balances and reserves are a finite resource which cannot be relied on indefinitely to balance the budget. The level of available balances and reserves is declining as their planned use is confirmed each financial year and the scale of budget variances starts to reduce. For example, the indications (subject to audit) are that in the year just ended the Council used c£2.1m from reserves and balances whilst the revenue budget outturn was in line with forecast (i.e. no favourable underspend).

49. More detailed information on the Council's reserves and balances will be presented to the Executive in June when the outturn for 2016/17 is reported. For the purposes of this update of the MTFP the current strategy is assumed:

- *the Minimum Working Balance will remain at £1.0m over the period to 2020/21 (and the balance of the Bond Reserve will remain unchanged at £0.3m)*.

- *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 £2.9m will be used from the Budget Support Reserve over the next three years (£1.4m in 2018/19, £1min 2019/20 and £0.5m in 2020/21).* **This, combined with the budgeted use in the current year of £1.05m means, on current projections, the Council will have fully used the balance available on the Budget Support Reserve as at 31/3/17.**

50. 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 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000
Local Funding "Gap" **(per Table3 above)**	**1,905**	**2,800**	**3,744**	**4,361**
Use of Budget Support Reserve	(1,046)	(1,400)	(1,000)	(500)
Use of Specific Reserves	(859)	0	0	0
Total Use of Reserves	**(1,905)**	**(1,400)**	**(1,000)**	**(500)**
Funding "Gap"	**-**	**1,400**	**2,744**	**3,861**
Year on Year Savings Required	**-**	**1,400**	**1,344**	**1,117**

51. As Table 4 indicates, applying the reserves strategy above requires a further £2.9m to be drawn from reserves but still means that savings of £3.9m are required over the next three years. The most immediate issue being the need to find savings of £1.4m for 2018/19.

Draft Budget Strategy 2018/21

52. Looking specifically at the Budget Strategy for 2018/21, it is proposed that the key elements are as follows:-

- pursue, the Growing, Charging, Saving and Stop strategy as set out above;
- no budget growth without equivalent savings being proposed;
- use of £2.9m 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 unless such borrowing results in ongoing revenue savings (the affordability of the *capital programme will be reviewed in parallel with the Revenue Budget*);

53. Applying this Strategy requires estimated budget savings of c£3.9m (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. *For the avoidance of doubt, adopting the strategy outlined above will mean the Council has nothing left in the Budget Support Reserve at the end of the plan period. The extent to which savings are not implemented on the scale required will mean this position is reached sooner than is currently assumed in the plan.*

Suggested areas of focus for generating savings from 2018/19

54. The Executive will be aware that the bulk of savings for the current year originated from technical measures, primarily linked to the Council's prudential borrowing powers and historically low interest rates on loans from the Public Works Loan Board. The combination of these two factors enabled the Council to acquire property interests in the ACE Centre and Number 1 Market Street, Nelson and generate savings and also to help the Leisure Trust refinance its leasing debt and thereby reduce the Council's management fee.

55. These savings will not be available again from 2018/19. Hence, other measures will need to be identified to generate the scale of savings required. Inevitably, this will include proposals that Councillors have previously rejected, and/or proposals that Councillors may find unpalatable. However, as your officers, we must put forward all proposals with the aim of achieving a balanced budget for the year.

56. Some of the more significant areas of activity will include:

- Transfers to local Town and Parish Councils – notably the transfer of Parks and the ongoing impact on the Council's Landscape Maintenance Service;

- Pendle Leisure Trust – a reduction of £150k was achieved on the Council's management fee for the current year; last year we commissioned a review of the Trust which advocated a soft market testing exercise to assess the value for money provided by the Trust; subject to the Executive's agreement and discussions with the Trust we may progress this further in the current year;

- Waste Services – the current cost sharing agreement with the County Council comes to an end on 31st March 2018; as a result of this the Council will lose income of £0.76m immediately from 1st April 2018; in response we need to review the costs of the service and this may include, again subject to approval by the Executive, consideration of alternative service delivery models including outsourcing;

- Liberata – savings on the unitary charge paid by the Council of £300k per annum up to 2020 and £400k per annum thereafter to 2030 were agreed as part of the budget for the current year; further savings will be required and these may stem from investments in technology and streamlining service processes including an improved Customer Relationship Management system;

- Staffing – whilst significant reductions in headcount have been made since 2010 (400 down to 250); staff costs remain a large element of current costs and will need to be reviewed during the plan period to help reach the scale of savings required.

57. Each of the above areas will be subject to more detailed consideration with any proposals reported to Councillors at the appropriate time. Ideally, we would like to secure agreement to savings proposals for next year in phases as we did during the budget process for this year. To this end we propose that options for savings be submitted to meetings of Council in October and December with final decisions on the budget to be taken in February 2018.

58. The 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 work 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 2018/21

59. It is important to consider the Council's Medium Term Capital Programme (MTCP) given the links and inter-action with the revenue budget (e.g. loan and interest charges; impact on investment income from disposal proceeds and capital expenditure). However, rather than report on the capital programme as part of this report the intention is to submit a separate report to the June meeting of the Executive. This will build on the capital outturn for the 2016/17 financial year.

Flexible use of capital receipts

60. As reported previously to the Executive, there is limited scope to apply capital receipts to transformational type projects which help deliver ongoing revenue savings. This requires the Council to approve a flexible use of capital receipts strategy and a draft of this document was considered by the Executive in March. It will go to Council for adoption in July. At this time there is nothing built in to the financial plan for the use of such receipts. They could for example be used to meet the 'cost of change' arising from changes in staffing structures or changes in models of service delivery.

Budget Consultation

61. The approach to consultation as part of the preparation of the budget for 2018/19 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 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 2018/19:-

Table 7: Forward Timetable for the Development of the Budget 2018/19

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 2020/21 – 1st tranche of savings to Council for decision	
	Decision deadline for Council's membership of Lancashire Business	

Date	Action	Status
	Rates Pool (31/10/17).	
Nov	Early drafting of Budget for 2018/19 and Revised Budget for 2017/18	
Nov/Dec	Provisional Local Government Finance Settlement 2018/19	
Dec	Executive considers initial budget submissions (revenue & capital) – 2nd tranche of savings to Council for decision.	
Dec-Jan 2018	Proposed Draft Budget 2018/19 developed	
Jan 2018	Final Local Government Finance Settlement 2018/19	
Feb 2018	Executive recommends Budget and Council Tax to Council	
Feb 2018	Council sets final Budget and Council Tax for 2018/19	

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 35% from current levels. The cumulative reduction since 2010/11 is closer to 70%. Reductions in funding on this scale pose a significant business risk to the Council and require effective action to be taken.

69. 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 maintain existing service levels.

70. To help 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 £1.4m in 2018/19 as well as developing other options which will reduce the Council's net expenditure by £3.9m over the period to 2020/21.

72. There remains a great deal of uncertainty regarding the timing and implications of reforms to the business rates retention system. The Government has previously outlined its commitment to implement a system whereby 100% of rates income is retained locally but much more detailed work and analysis is required before the implications of this for Pendle can be accurately assessed.

Health and Safety

73. There are no Health and Safety implications arising from this report. The revenue budget will, once approved, include provision for ensuring the Council can meet its health and safety obligations as required.

Climate Change

74. 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

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

Equality and Diversity

76. 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 2018/21
Appendix B – Key Assumptions for Medium Term Financial Plan 2018/21

LIST OF BACKGROUND PAPERS
Papers held in Financial Services