

**REPORT OF:   MANAGEMENT TEAM**  
**TO:               SPECIAL BUDGET EXECUTIVE**  
**DATE:           7<sup>th</sup> FEBRUARY 2018**

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## **GENERAL FUND REVENUE BUDGET 2018/19**

### **PURPOSE OF REPORT**

1. The purpose of this report is to:-
  - a) inform the Executive of the details of the Local Government Finance Settlement (LGFS) for 2018/19 and the implications for the Council (subject to details of the final settlement being available);
  - b) consider the proposed General Fund Revenue budget and other related matters for 2018/19;
  - c) enable the Executive to make a recommendation to Council at its meeting on 22<sup>nd</sup> February 2018 on the level of Council Tax to be set for the financial year 2018/19; and
  - d) provide details of the Council's Medium Term Financial Plan for the period 2018/21 to highlight the significant budget deficit and the need to take further action to reduce expenditure to a sustainable level.

### **RECOMMENDATIONS**

2. The Executive is recommended to:-
  - a) have regard to [Appendix A](#) to this report in respect of the robustness of Council's budget estimates and adequacy of reserves when considering recommendations (e) to (l) below;
  - b) note the proposal to maintain the General Fund Minimum Working Balance at £1.0m;
  - c) note that details of the final Local Government Finance Settlement for 2018/19 will be provided at the meeting should they be available;
  - d) note the projected outturn position in the current financial year;
  - e) in relation to Pendle Leisure Trust, subject to consideration of the residual saving proposals for 2018/19, agree to provide a grant to the Trust of £1,276,200 in 2018/19;

- f) make recommendations to the full Council on 22<sup>nd</sup> February 2018 on the General Fund Budget Requirement for 2018/19 having regard to the recommended budget as set out in this report (and detailed at [Appendix I](#));
- g) subject to the Executive's consideration of the budget proposals in this report and confirmation by Government of the council tax referendum thresholds for 2018/19, to recommend to Council on 22<sup>nd</sup> February, a Band D council tax for the year of £257.64, being an increase of £7.48 (2.99%) on the current level of council tax;
- h) require each Service to operate within its budget for 2018/19, once approved, and that these budgets be cash limited and subject to regular monitoring and control;
- i) in view of the estimate of residual savings required for subsequent years as set out in the report, request Management Team to develop and bring forward an updated 3-year strategy comprising a package of savings options for consideration by the Budget Working Group early in the new financial year as part of the development of future years budgets;
- j) linked to (i) above request that a further report be brought back to a future meeting of the Policy and Resources Committee updating the Financial Strategy and Medium Term Financial Plan for 2019/22;
- k) acknowledge the uncertainty attached to the current assumptions and financial modelling for 2020/21 in view of the forthcoming national Fair Funding Review of local government needs and resources combined with the implementation of 75% local business rates retention by this time;
- l) grant delegated authority to the Financial Services Manager, in consultation with the Executive Member for Finance and Leader, to conclude and submit the Council's response to the Fair Funding Review.

## **REASONS FOR RECOMMENDATIONS**

- 3. To comply with statutory requirements to determine a balanced budget and council tax for the forthcoming financial year.

## **ISSUE**

### **Background**

- 4. The budget process is a key element of the Council's strategic planning process and, as part of the service and financial planning approach adopted by the Council, is a means of ensuring that resources are best placed to enable the Council to meet its objectives as set out in the Strategic Plan.
- 5. This report follows on from the first budget report considered by the Executive on 14th December 2017 which explained the main issues in the current budget round. Since that report, the Government has published details of the Provisional Local Government Finance Settlement for 2018/19.
- 6. This report provides an update of the most recent information in relation to the settlement, the development of the budget and proposes a budget strategy for 2018/19 to enable the Executive to make a recommendation to Council on both the budget and Council Tax for the forthcoming financial year.

7. In view of the continuing and significant reduction in funding, the report also highlights the ongoing requirement to maintain the Council's medium term financial strategy under review, with a focus on the identification and implementation of savings options, so that the Council's net revenue expenditure can be reduced to a level that is sustainable with the projected resources available to the Council. However, the level of uncertainty associated with any forward projections increases from 2020/21 in view of the forthcoming Fair Funding Review by Government and the move towards 75% local retention of business rates. More on these elements is included further below in this report.

### **Statement on the robustness of the Council's budget calculations and the adequacy of financial reserves**

8. As indicated in the legal implications section below, Section 25 of the Local Government Act 2003 requires the Financial Services Manager, as the officer having responsibility for the administration of the Council's financial affairs, to report to the Council on the robustness of the budget estimates and the adequacy of proposed financial reserves when determining its budget requirement under the Local Government Finance Act 1992.
9. A draft copy of the statement that will be reported to Council on 22nd February is provided at [Appendix A](#) and the Executive should have regard to this when making proposals in relation to the budget. The statement has been produced on the basis of the proposals set out in this report. It should be noted that, subject to Councillors' deliberations on the budget at Council later this month, it may be necessary for the statement to be revised to take account of the decisions taken at the Council meeting.
10. Given the ongoing reductions in core government funding over the medium-term and the high dependency on the use of council reserves to balance the Council's budget, Councillors are asked to consider these statements fully in the context of the proposed budget and Medium Term Financial Plan.
11. As part of the preparatory work in relation to the statement on the adequacy of the Council's financial reserves, work has been undertaken to review the level of the Council's General Fund Working Balance. This review is undertaken annually and the outcome of this work is a proposal to maintain a Minimum Working Balance of £1.0m. The rationale for this is provided at [Appendix B](#).

### **Local Government Finance Settlement 2018/19**

12. The provisional local government finance settlement (LGFS) was published after the Executive had considered the initial budget report in December. In anticipation of this, the Executive granted delegated authority to the report author in consultation with the Executive Councillor for Finance to respond to the Government's consultation on the settlement. A copy of the response submitted on behalf of the Council is provided at [Appendix C](#).
13. Whilst the Council's share of revenue support grant over the period 2018/19 to 2019/20 is consistent with Government's 4-year funding offer the main changes impacting on the Council's financial position result from changes made to the New Homes Bonus regime which took effect from the current year. More information on this is provided below.

### **Funding Allocations 2018/19**

14. On the basis of the Provisional Settlement, Table 1 below summarises the estimate of funding for Pendle in 2018/19:

**Table 1: Estimate of Funding for 2018/19**

	Actual Funding 2017/18 £000	Estimated Funding 2018/19 £000	Estimated Funding 2019/20 £000	Estimated Funding 2020/21 £000
Estimate of Retained Business Rates	4,280	4,789	4,894	4,992
<b>Add</b> Revenue Support Grant	2,210	1,707	1,145	900
<b>Total</b>	<b>6,490</b>	<b>6,496</b>	<b>6,039</b>	<b>5,892</b>
<b>less</b> Council Tax Support Grant	-1,236	-1,236	-1,236	-1,236
<b>less</b> Homelessness Grant	-97	-97	-97	-97
<b>'Formula Grant' (equivalent)</b>	<b>5,157</b>	<b>5,163</b>	<b>4,706</b>	<b>4,559</b>
<b>Add</b> New Homes Bonus	1,004	488	250	113
<b>Estimate of Funding</b>	<b>6,161</b>	<b>5,651</b>	<b>4,956</b>	<b>4,672</b>
<b>Cumulative change since 2010/11</b>	<b>-53%</b>	<b>-57%</b>	<b>-62%</b>	<b>-65%</b>

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

	£000	£000	£000	£000
<i>Individual Authority Business Rates</i>	6,800	7,064	7,220	7,364
<i>Compensation via Section 31 Grant <sup>1</sup></i>	728	985	1,006	1,027
<i>Tariff Payment to Government</i>	(3,248)	(3,260)	(3,332)	(3,399)
<b>Estimate of Retained Business Rates</b>	<b>4,280</b>	<b>4,789</b>	<b>4,894</b>	<b>4,992</b>

1. Compensates for cost of Government policy decisions on business rates relief which suppress our income.

15. The estimate of Retained Business Rates shown above for 2018/19 is derived from an assessment of the Council's share of the business rates collected (£7.064m). This is lower than the Government's assessment of the Council's share of business rates income (£7.174m) and reflects local knowledge of factors such as reliefs, exemptions and outstanding appeals.
16. As the table above indicates, it is currently estimated that the Council's funding, on a like for like basis, will fall from £6.161m in 2017/18 to £5.651m in 2018/19, a reduction of 8.3% with further reductions projected each year of the medium-term plan period.
17. It is only possible to estimate the funding at this stage. Whilst revenue support grant for 2018/19 is guaranteed, the estimate of retained business rates is not; this is dependent on the amount of business rates income for the year. This is affected both by changes in the amount of business rates payable, itself subject to outstanding appeals and changes to the rating list (as new properties are built; existing properties demolished) along with the Council's collection of rates. There is, therefore, a degree of volatility in the estimate of retained business rates. Under the accounting arrangements applicable to business rates any in-year volatility during 2018/19 will impact on the budgeted income for subsequent years.
18. At the time of writing this report, the Government had not published details of the final local government finance settlement for 2018/19 and hence the estimates of funding shown above are not yet confirmed and could change. Details of the final settlement are expected in early February and if this is the case a verbal update will be provided at the meeting.

### Comparison to Medium Term Financial Plan 2018/19

19. Table 2 below provides a comparison of the updated estimate of funding for 2018/19 outlined above with the estimated amounts that were assumed in the Medium Term Financial Plan 2018/21 (and as reported to the Executive in December):

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

	<b>Funding 2018/19 £'000</b>	<b>Funding 2019/20 £'000</b>	<b>Funding 2020/21 £'000</b>
Estimate of Funding (See Table 1 above)	5,651	4,956	4,672
Medium Term Financial Plan (December 2017)	5,292	4,624	4,358
<b>Change in Funding Estimate</b>	<b>359</b>	<b>332</b>	<b>314</b>
<b>Analysis of Change:</b>			
Revenue Support Grant	0	0	0
Retained Business Rates	346	319	301
New Homes Bonus	13	13	13
<b>Total of Changes</b>	<b>359</b>	<b>332</b>	<b>314</b>

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

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

21. The NHB regime was subjected to major changes by Government which took effect from the current year. The key changes were the introduction of a baseline % for additional units of housing below which no NHB is payable together with a payment period of 5 rather than 6 years for each tranche of NHB for 2017/18 reducing to 4 years from 2018/19 onwards.
22. The baseline % was set by Government at 0.4% for the current year and no change to this has been proposed for 2018/19. The effect of this for Pendle is that we will only receive NHB where the annual increase in units of housing exceeds c123 Band D equivalent properties. Prior to this change the Council would have received NHB on all additional units. Now we only receive NHB on those additional units above the baseline.
23. The impact on the Council's share of NHB as a result of the above changes is both significant and adverse as illustrated below in table 3 which compares our in-year entitlement to NHB under the former methodology compared with the revised framework. Entitlement to NHB in 2018/19 is determined by the change in housing stock measured between October 2016 and October 2017.

<b><i>Table 3 - Calculation of NHB for 2018/19 under the new scheme compared to the former scheme</i></b>	<b>Post 2017 NHB Scheme</b>	<b>Pre 2017 NHB Scheme</b>
Change in Stock:		
• increase in number of dwellings	108.0	108.0
• offset by increase in the number of empty homes	(44.0)	(44.0)
Total additional units (Oct 16 to Oct 17)	64.0	64.0
Converted to number of Band D equivalents	66.0	66.0
Deduct baseline requirement at 0.40%	124.4	N/a
Residual number of Band D units on which NHB is paid	None	66.0
Amount of NHB per Band D additional unit (£)	£1,590.55	£1,590.55
Gross amount of NHB (£)	£0	£104,976
Pendle's share at 80% (20% is paid to the County Council)	£0	£83,981
Number of years for which this is paid	4	6
<b>Total entitlement in respect of 2018/19 tranche of NHB</b>	<b>£0</b>	<b>£503,886</b>

24. The table above shows the impact of one year in isolation, i.e. 2018/19. However, the cumulative reduction in income from New Homes Bonus is greater. This is because allocations of NHB granted to the Council in respect of earlier years now stop sooner than expected as shown below:

Year of NHB allocation	Annual amount £'000	Final year of payment	
		(previously)	(now)
2013/14	179	2018/19	2017/18
2014/15	341	2019/20	2017/18
2015/16	238	2020/21	2018/19
2016/17	137	2021/22	2019/20
2017/18	100	2022/23	2020/21

25. The Council will benefit from some additional NHB in 2018/19 - this stems from the affordable homes premium component which results in an award of £13,440 to the Council. Affordable housing units comprise those for social rent, intermediate rent and low cost home ownership as measured by the DCLG (now MHCLG). There were a total of 48 such units during the period in question each attracting £350. Pendle's share of this at 80% is £13,440 and we will receive this payment annually for 4 years.

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

26. The Council has to estimate the level of business rates income each year. For 2018/19 this is made more difficult by the following factors:

- the ongoing impact of the 2017 NNDR revaluation and revised system for appeals;
- ongoing transitional arrangements to mitigate the impact of the above on businesses;
- a one-off adjustment by MHCLG to the Council's tariff in 2017/18 (payment we make to government) to mitigate the impact of revaluation on the council;
- changes to thresholds for small business rate reliefs, and the introduction of various policy reliefs by Government (e.g. Pub Relief, Discretionary Revaluation Relief, Supporting Small Businesses Relief).

27. The estimate of business rates income for next year as shown in table 1 above represents our best estimate on current information. Ordinarily it would result in the Council being subject to a levy payment to government. However, this is avoided by virtue of our ongoing membership of the Lancashire business rates pool. The downside risk of being in the pool still remains, i.e. there is no government protection (safety net) in the event our share of rate income falls below a specified threshold (£3.62m).

28. Our rating submission for 2018/19, as made to Government at the end of January, estimates our net retained income in next year will be £4.789m inclusive of Section 31 grant monies. The latter represent compensation payments to reimburse the Council for business rates income foregone as a result of government policy decisions on business rate reliefs. The amount of Section 31 grant now expected for 2018/19 exceeds that originally assumed in the MTFP. This is due to an updated assessment by Government based on their methodology for compensating councils, primarily for the loss of income arising from changes to thresholds for small business rates relief and other reliefs announced in the Spring 2017 Budget.

29. Section 31 monies in 2018/19 are now predicted to be £261k higher than initially assumed in the December report. The balance of the additional income in 2018/19 from business rates shown under table 2 above is due to a technical adjustment made by MHCLG to the tariff payment we make to Government. Our tariff payment has reduced by £85k based on an updated assessment of the impact on Pendle of the 2017 Revaluation. Confirmation of this latter adjustment is awaited as part of the announcement on the Final Local Government Finance Settlement.

### **Forecast General Fund Outturn 2017/18**

30. At the meeting of the Executive on 14th December 2017, Councillors approved the Revised Budget for 2017/18. At that time, it was estimated that the outturn position on the General Fund Revenue Budget would be £505k less than the approved budget for the year.



31. This enabled a small number of reserve contributions to be made in the current year totalling £500k and these were agreed by the Executive as follows:
- Change Management Reserve                      £300k
  - NNDR Volatility Reserve                            £100k
  - Growth Sites Development Reserve            £100k
32. After making the above contributions to reserves, the residual underspend was estimated at £5k. Monitoring of the Council's budget for the year has continued since the Revised Budget was agreed and Table 4 below provides a summary of the position at the end of December 2017. This indicates that, in comparison to the Approved Budget, further savings are expected in this year giving rise to a projected underspend of £124k for the year.

**Table 4: Forecast Outturn 2017/18**

	<b>Approved Budget 2017/18 £'000</b>	<b>Forecast Outturn 2017/18 £'000</b>	<b>Variance £'000</b>
Net Cost of Services	15,076	14,972	(104)
Corporate Income and Expenditure	(1,980)	(2,000)	(20)
<b>Net Revenue Expenditure</b>	<b>13,096</b>	<b>12,972</b>	<b>(124)</b>
Use of Specific Reserves	(741)	(741)	-
<b>Net Expenditure</b>	<b>12,355</b>	<b>12,231</b>	<b>(124)</b>
Budget Requirement	11,549	11,549	-
<b>Contribution to / (from) Budget Support Reserve</b>	<b>(806)</b>	<b>(682)</b>	<b>124</b>

33. The main variances contributing to this projected position are as follows:-

*Net Cost of Services* – additional net saving of £84k arising from reduced employee costs from the management of vacant posts, purchase of additional leave and maternity together with additional income from trade waste of £20k.

*Corporate Income and Expenditure* – the saving shown above of £20k stems from reduced borrowing costs as loans expected to be taken from the Public Works Loan Board to fund capital expenditure have not yet been drawn down.

34. The contribution shown above for the Budget Support Reserve reflects a net contribution from the reserve of £682k. This position is skewed by the decision taken earlier this year to transfer £235k in **to** this reserve from other reserves to support the Council's medium-term financial plan to 2020/21. Offset against this is a contribution **from** the reserve estimated at £917k to support the revenue budget in the current year.
35. Work continues on the monitoring of the budget for the remainder of the financial year and any further variations will be reported as part of the regular Strategic Monitoring reports.

### **Development of the Base Budget for 2018/19**

36. As outlined in the report to the Executive on 14th December 2017, the Base Budget for 2018/19 has been prepared on the basis of the Council's existing policies, strategic objectives and related priorities. The main assumptions used in the development of the Budget Estimates were set out in the above report and these remain largely unchanged.
37. Since the last report, work has continued to 'firm up' the Base Budget for 2018/19 (and future years). The latest position is now shown in Table 5 below.

**Table 5: Revised Net Expenditure 2018/19 (and Forecast to 2020/21)**

	Base Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000
Net Expenditure as at 14th Dec 2017 *1	14,085	14,757	15,453
'Firming Up' Adjustments ( <a href="#">Appendix D</a> )	(129)	(45)	(85)
Savings Implemented ( <a href="#">Appendix D</a> )	(230)	(233)	(235)
<b>Revised Net Expenditure</b>	<b>13,726</b>	<b>14,479</b>	<b>15,133</b>

\*1 – This excludes the use of reserves.

### **Pendle Leisure Trust – Grant 2018/19**

38. In the current year Pendle Leisure Trust Ltd receive a management fee from the Council of £1.426m. As part of the normal budget development process, the Trust was asked to identify savings options so as to deliver a net reduction in grant funding for 2018/19 of at least £150k. A number of proposals were developed by the Trust and these have been discussed at two meetings of the Budget Working Group together with senior representatives from the Trust.
39. From a Trust perspective, they already face a projected deficit on their budget in 2018/19 of £153k. Therefore to offset this and deliver a saving of £150k to enable the Council to reduce its management fee by this amount requires the Trust to identify total savings of £303k.
40. An updated list of savings options has been developed by the Trust. Some of the items included on this list were accepted by Council on 21<sup>st</sup> December. Significantly, this included the sum of £64k arising from the proposed transfer of the Muni in Colne to the Town Council with effect from 1<sup>st</sup> April 2018. This proposal was accepted by the Council but was subject to the agreement of the Town Council. However, following consideration of the Town Council's budget and council tax for 2018/19 it now seems this transfer will not proceed in next year.
41. As a result, the revised value of agreed savings proposals from the Leisure Trust stands currently at £191k of which the Council's share is £40k and this forms part of the 'savings implemented' figure shown in table 5 above. However, this still leaves a savings 'gap' of £112k for the Trust to address if its management fee from the Council is reduced by £150k.
42. In response a further set of savings proposals has been developed by the Trust and these are presented at [Appendix F \(ii\)](#). At the time of writing this report the list of options submitted remains subject to final confirmation by the Trust and should anything change a verbal update will be provided at the meeting.
43. Included in the Trust's proposals is the redevelopment of Pendle Leisure Centre in Colne. A summary of the consultation outcomes is presented on the agenda paper for this meeting. Details of the proposed redevelopment have been considered previously by the Executive and Council and are not repeated here.
44. If all the proposals as now submitted by the Trust are agreed, the management fee payable by the Council to the Trust in 2018/19 will reduce from £1.426m to £1.276m.

### **The Financial Strategy 2018/21**

45. The local government finance settlement for 2018/19 represents year 3 of the government's four-year funding offer. The Council accepted the offer in October and submitted the requisite Efficiency Plan. The plan is accessible via the Council's website [here](#).



46. Whilst there is certainty regarding the level of Revenue Support Grant, over the 4 year period there has been a significant reduction in funding for New Homes Bonus as outlined above.
47. This combined with the proposed reforms of the business rates retention scheme introduces additional funding uncertainty as the government moves towards 75% local retention of business rates by 2020/21.
48. Whilst changes to the business rates retention scheme are planned, the detail and design of the revised arrangements is not yet finalised. As a result it is difficult to predict the impact on Pendle at this time. The latest indications from Government are that 75% rather than 100% local rates retention is now the proposed objective by 2020/21. If this is confirmed it is expected to result in revenue support grant being rolled-in to business rates funding from 2020/21 and bring an end to Section 31 grant funding under the revised scheme of rates retention.
49. The Government is continuing with a number of business rates pilots in 2018/19 which are intended to test the design and implementation of the move towards 100% business rate retention. The lessons learned and other outputs resulting from these pilots should help inform the ongoing design of the business rates retention system nationally albeit that the objective now appears to be 75% rather than 100% local rates retention.
50. Over the same period, the Government is proposing to undertake a Fair Funding Review to determine the relative needs and resources of local government. The introduction to the consultation paper states the following:

*Funding baselines for local authorities, as determined by the local government finance settlement, are based on an assessment of local authorities' relative needs and resources. The methodology behind this assessment was introduced over ten years ago, and has not been updated since the introduction of the 50% business rates retention system in 2013/14.*

*Since that time, demographic pressures have affected local areas in different ways, as has the cost of providing particular services. In recognition of these pressures, the Government last year announced a review to address concerns about the fairness of current funding distributions. The outcome of this review will enable the Government to reconsider how the relative needs and resources of local authorities should be assessed in a world in which they will continue to have greater control over the money that they raise.*

51. The consultation closes on the 12<sup>th</sup> March and approval is requested from the Executive for the report author to prepare and submit the Council's response in consultation with the Executive Member for Finance and the Leader.
52. We are in effect dealing with a two year period under current funding arrangements for 2018/19 – 2019/20 with potentially a much changed system of funding in place from 2020/21 onwards. The implications of this for Pendle are uncertain and could be markedly different (positively / negatively) from the position currently reflected in our MTFP for 2020/21. *Councillors are asked to acknowledge this position accepting that further updates will be presented in due course as more information becomes available.*
53. To put this into some context, Table 6 below summarises the updated Medium Term Financial Plan for 2018/21. This is before the use of reserves and the implementation of savings and is provided to stress the importance of taking early action to deal with the underlying funding deficit:-

**Table 6: Medium Term Financial Plan 2018/21**

	<b>Budget 2018/19 £000</b>	<b>Forecast 2019/20 £000</b>	<b>Forecast 2020/21 £000</b>
<b>Net Revenue Expenditure (see table 5 above)</b>	<b>13,726</b>	<b>14,479</b>	<b>15,133</b>
<i>Less:</i>			
Revenue Support Grant	(1,707)	(1,145)	(900)
Retained Business Rates (net of Tariff)	(3,805)	(3,888)	(3,965)
Retained Business Rates – Collection Fund Surplus	(253)	(100)	(100)
Council Tax Income	(6,096)	(6,325)	(6,500)
Council Tax Income – Collection Fund Surplus	(336)	(200)	(150)
<b>Total Estimated Funding</b>	<b>(12,197)</b>	<b>(11,658)</b>	<b>(11,615)</b>
<b>Funding Shortfall (before use of reserves)</b>	<b>1,529</b>	<b>2,821</b>	<b>3,518</b>
Estimated Taxbase	23,661.5	23,838.96	24,017.75
Estimated Council Tax (Band D)	257.64	265.34	270.62
<b>% Council Tax Increase (Assumed)</b>	<b>2.99%</b>	<b>2.99%</b>	<b>1.99%</b>

*Band D Council Tax in the current year is £250.16*

54. Table 6 above outlines a growing budget deficit such that by 2020/21, the Council's on-going funding will be £11.6m compared with estimated net expenditure of £15.1m – a deficit of £3.5m (before any use of reserves). This is not a sustainable position and action must be taken to address this. The added uncertainty relating to 2020/21 compounds this as we simply don't know the implications for Pendle of the proposed reform of local government finance.
55. In the short-term, the options available to the Council are limited to reducing expenditure and/or increasing income (from Council Tax, Fees and Charges). The scale of savings required means strategic decisions need to be taken in relation to key areas of council spending and income. These take time to agree and implement (e.g. growing the business rate and council tax base, consideration of alternative service delivery models). Whilst it remains possible to use balances and reserves to smooth the impact from year to year these are a finite resource and cannot be relied on indefinitely to balance the budget.
56. The most immediate issue is the budget deficit in 2018/19. The narrative below deals with this but Councillors are asked to consider the proposed budget in the context of the overall Medium Term Financial Plan position as shown above.

### **Budget Savings, Charges and Growth Proposals 2018/19**

57. The Executive has received two reports on savings proposals so far this year; one in September, the other in December. All agreed saving proposals were then submitted to Council (October and December) with all confirmed proposals now built in to the draft budget for 2018/19 and reflected in the MTFP figures shown above in table 6. Maintaining the practice adopted in recent years, this work has been overseen by the Budget Working Group. Taken together, these arrangements have resulted in much of the initial savings gap having been addressed. However, there remains a requirement to identify further savings of £511k to ensure a balance budget is achieved for next year.
58. In an effort to bridge this savings 'gap' the remaining options for savings put forward by Management Team have subsequently been reviewed and a list of suggested savings is provided at [Appendix E](#). These total £511k in 2018/19 with 'indicative' proposals also listed for the remainder of the current medium-term financial plan period.

59. A narrative supporting each of the savings proposals is provided at [Appendix F \(i\)](#). The Base Budget submission for 2018/19 contains no provision for budget growth.

## **Council Tax 2018/19**

60. From a financial planning perspective the assumption on Council Tax for 2018/19 has changed from that reported to the Executive in December. This is as a result of the Provisional Settlement. When publishing the settlement the Government also issued draft referendum principles which stated that for District Councils an increase in council tax would be deemed excessive if it is 3%, or more than 3% *and* more than £5 greater than its equivalent charge in 2017/18.
61. The previous principles set the percentage threshold at 2% or more than 2%. In effect the government is allowing district councils the opportunity to increase their council tax by a further 1% than had been assumed previously, without the need for a referendum.
62. As a result of this the MTFP now assumes council tax will increase by 2.99%, giving rise to a Band D charge of £257.64, an increase of £7.48 compared to the charge in the current year of £250.16. Over 60% of our dwellings are in Band A for which the equivalent increase would be £4.99 giving rise to a Band A charge of £171.76, up from £166.77 in this year.
63. Accepting the additional 1% increase allowed by Government, if agreed by Council, would generate extra council tax income of £59k in 2018/19 and £188k over the 3 year Plan period. Conversely, if this increase is not agreed then the Council will have to identify and implement additional savings for equivalent amounts. Likewise, if Councillors were minded to approve no increase in council tax for 2018/19, then the loss of assumed income from council tax would be £177k for next year in isolation and £0.55m cumulatively over the plan period increasing the level of savings required by equivalent amounts.
64. At this time an increase in council tax of 2.99% is purely a financial planning assumption. No decision has yet been taken by Councillors in connection with this and Full Council will ultimately determine the council tax for 2018/19 when it meets on 22<sup>nd</sup> February. Councillors are asked to note however that the Government's own spending power projections made in respect of district councils do assume that such councils will increase their tax by the maximum permitted.
65. *The Government has also confirmed that the referendum principles will not be extended to local town and parish councils for a period of three years from 2018/19 subject to certain caveats.*
66. Given the financial position facing the Council, Management Team's recommendation is that the Council should increase council tax for 2018/19 by the maximum permitted i.e. 2.99% (an increase of £7.48). If agreed, this would result in a Band D charge for Pendle Council services only of £257.64. An increase of £7.48 equates to c14p per week for Band D Properties (for Band A properties, it would be £4.99 or c10p per week).
67. The Executive may wish to consider and recommend to Council an alternative level of council tax. To assist Councillors in their deliberations on this matter, [Appendix G](#) shows a range of council tax requirements and associated council tax levels, combined with the impact on the budget, at different tax levels.
68. The above analysis only considers the council tax charge made by the Borough Council. Council tax charges for the other authorities (Lancashire County Council, Police and Crime Commissioner and Fire Authority) that precept upon the Council will be provided as part of the Council Tax Resolution to Council on 22<sup>nd</sup> February.

## Reserves and Balances

69. Details of the Council's Reserves and Balances were provided in the December budget report. An updated analysis of Balances and Reserves is provided at [Appendix H](#). A strategy for the use of Balances and Reserves was also set out in the December report and this remains largely unchanged. The position proposed following the provisional settlement, is:

- a total of £2.9m will be used from the Budget Support Reserve over the 3 year Plan period to 2020/21. Whilst this is unchanged from the sum reported in December, the profiled use over the 3 year Plan period has been revised for the purpose of this report. The use of £2.9m combined with the expected use of the reserve in 2017/18 (£0.68m per table 4 above), means a total of £3.58m will be taken from the reserve to support the budget in the period to 2020/21; if this scenario is confirmed then the projected balance left on the reserve at 31/3/21 is £0.327m;
- Specific Reserves will be used only for the purposes for which they have been set aside and will be subject to an annual review; the MTFP currently assumes the use of £426k of such reserves in the period 2018/19 to 2020/21, and
- the Minimum Working Balance will remain at £1.0m for 2018/19 and be subject to annual review to assess the adequacy of this (as with all other reserves).

### Draft Budget for 2018/19 - Management Team Recommendation

70. In recognition of the substantial budget deficit and the need for early action to reduce the Council's net expenditure to a sustainable level, Management Team recommends the implementation of all the savings identified at [Appendix E](#) in 2018/19 totalling £510,680.
71. This, combined with the proposed increase in council tax and using £1,018,590 from reserves, forms the basis of the Management Team budget proposal which is summarised below and shown in detail at [Appendix I](#):

**Table 7: Management Team - Recommended Budget 2018/19**

	<b>Base Budget 2018/19 £000</b>
Revised Net Expenditure 2018/19 (per Table 5 above)	13,726
Recommended Savings (see <a href="#">Appendix E</a> )	(511)
<b>Net Revenue Expenditure</b>	<b>13,215</b>
Use of Reserves (see <a href="#">Appendix H</a> )	(1,018)
Collection Fund – share of council tax and NNDR surplus	(589)
Estimate of Government Funding (per Table 1 above) excluding S31 grant	(5,512)
<b>Recommended Council Tax Requirement</b>	<b>6,096</b>

### Updated Medium Term Financial Plan 2018/21

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

**Table 8: Medium Term Financial Plan 2018/21 (assuming Management Team's Budget)**

	Management Team Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000
<b>Funding Shortfall (see Table 6)</b>	<b>1,529</b>	<b>2,821</b>	<b>3,518</b>
Estimated Use of Reserves	(1,018)	(1,185)	(1,123)
Previous Year's savings	0	(511)	(1,636)
<b>In Year Savings Proposed / Required</b>	<b>511</b>	<b>1,125</b>	<b>759</b>

73. As the table indicates, the budget in 2018/19 will be balanced assuming the savings proposed of £511k are agreed. However, there remains a significant budget deficit in each of the following 2 years **with further savings of £1.9m required**. The implications of this are considered in more detail below.

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

74. The Executive recognises the Council has to make significant reductions to net expenditure given the significant and continuing reductions in core funding. If the Council fails to make the level of savings currently required the shortfall can only be made up from finite reserves. This simply pushes the balance of savings required on to the next year and will exhaust the available balance of non-committed reserves quicker than planned.
75. This is illustrated in Table 9 below which sets out a scenario under which savings of only £250k are agreed for 2018/19 with further savings of £0.5m in 2019/20. Currently, the medium-term financial plan requires a contribution of £1.08m from the budget support reserve in the third year of the plan period (2020/21). However, if savings of only £0.75m are made in the preceding two years the balance on the budget support reserve will not be sufficient to make this contribution leaving an additional shortfall of £820k to be added to the existing savings requirement for that year.

**Table 9: 'What if' scenario re achievement of lower savings in 2018/19 & 2019/20**

	Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000
Savings Not Achieved b/fwd	-	261	886
Minimum Level of Savings Required (see Table 8)	511	1,125	759
<b>Balance of Savings Required</b>	<b>511</b>	<b>1,386</b>	<b>1,645</b>
In Year Savings 2018/19	(250)	-	-
In Year Savings 2019/20	-	(500)	-
In Year Savings 2020/21	-	-	0
<b>Savings Not Achieved</b>	<b>261</b>	<b>886</b>	<b>-</b>
(Additional Use of Reserves) / Shortfall in reserves	(261)	(886)	820
<b>Budget Deficit</b>	<b>0</b>	<b>0</b>	<b>2,465</b>

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

	2018/19 £000	2019/20 £000	2020/21 £000
Opening balance of Budget Support Reserve (per Appendix H)	3,227	2,249	263
Net budgeted use of reserve	(717)	(1,100)	(263)
Additional use of reserve if savings <u>not</u> achieved	(261)	(886)	0
<b>Total</b>	<b>2,249</b>	<b>263</b>	<b>0</b>

76. As the table above illustrates, the implementation of lower savings in the first two years requires the shortfall to be made up from non-committed reserves. Using these reserves at a rate faster than assumed in the plan means that by 2020/21 there is only c£0.26m left on the Budget Support Reserve leaving a residual deficit of £2.46m. To implement savings on this scale in one year would pose an unacceptable risk to the Council. Therefore action must be planned and considered in advance to ensure the Council can manage this transition to a lower cost base effectively. As stated above, this scenario will potentially be compounded by the implementation of government reforms to local government finance from 2020/21 which add greater uncertainty to what is already a complex and challenging position.

### **Addressing the savings requirement to 2020/21**

77. The Council has made significant savings since 2010. On staffing, the Council has reduced its headcount from 400 in 2010 to 233 in 2017. Taking account of decisions made when setting the budget for the current year, combined savings in excess of £8m have been made since 2010/11. Thus far, in respect of next year, the Council has already agreed further savings of £0.6m.
78. Whilst this represents a significant achievement it is clear from our financial projections that more has to be done. However, given the savings made to-date there is decreasing scope to generate more from the ongoing, attritional reduction in services.
79. A focus will be maintained on the four key areas of spending, namely Liberata, Waste Management, Grounds Maintenance and Pendle Leisure Trust. These combined with staffing generally remain the main areas of expense.
80. However, in addition to ongoing reductions in expenditure by savings and efficiencies it is important for the Council to optimise opportunities to grow its income base, primarily via council tax and business rates. Some provision for growth has been assumed within the schedule of savings proposals shown in [Appendix E](#) relying on such developments as the extension of Lomeshaye and other commercial and housing developments generally within the Borough.
81. As indicated above in table 8, the level of savings required over the next 3 years is £2.4m. If the budget proposed by Management Team for 2018/19 is implemented in full the residual savings required are estimated at £1.9m over the following two years. This does assume the use of reserves as set out above and increases in council tax at the maximum permitted each year.
82. The Executive has previously resolved that Management Team should develop a 3-year strategy comprising a package of savings options acknowledging that this, for example, would involve strategic reviews of the delivery of all Council functions. Details of outline proposals for 2018/19 onwards were reported to the Executive in December 2017 and are shown at [Appendix E](#) for information. In some cases items are included as 'indicative' proposals with more detailed work required. This will be undertaken in conjunction with the Budget Working Group.



83. In addition a report on an updated financial strategy will be brought forward for consideration by the Policy and Resources Committee early in the new financial year. This will have to consider the proposed reforms of business rates with 75% local retention together with the Fair Funding Review. This will be difficult to assess but the requirement for financial planning remains even though the level of uncertainty will most likely increase during the next plan period.

### **Capital Programme 2018/19**

84. A report elsewhere on the Agenda for this meeting provides more details of the proposed Capital Programme for 2018/19.

### **Estimated Collection Fund Surplus 2017/18**

85. The Collection Fund Account is required to account for precepts and the income collected from council tax and business ratepayers by the Council acting as the Billing Authority. As budgets and associated precepts represent estimates at a point in time variations can occur which result in either actual surpluses or deficits. These must be shared between the major precepting bodies (County, District, Police and Fire Authority).
86. The projected year end position on the collection fund in respect of council tax is a **surplus** of £1.9m. Pendle's share of this surplus is £336k and this has been factored in to the budget submission for 2018/19.
87. The projected year end position in respect of business rates also reflects a **surplus**. A surplus of £632k has been estimated and this will be distributed during 2018/19 with Pendle's share at 40% being £253k. This has also been factored in to the Council's budget requirement for next year.

### **Council Tax Base 2018/19**

88. The Council Tax Base has been calculated in accordance with the relevant regulations at 23,661.5 Band D equivalent dwellings and was approved by the Executive at its meeting on 14<sup>th</sup> December 2017.

### **Group Proposals**

89. At this meeting, the Executive is requested to make recommendations to the Council on the Budget and associated council tax for 2018/19. Each Group also has the opportunity to present alternative budget proposals for consideration by Council.
90. However, Groups are requested to note the statutory obligation of the Financial Services Manager to make a statement on the robustness of the Council's budget calculations in support of the proposed budget. In view of this, Groups have been encouraged to discuss, in confidence, their budget proposals with the report author prior to the meeting of Council on 22<sup>nd</sup> February 2018.

### **Budget Consultation**

91. The following activities have been undertaken to raise awareness and seek feedback on the Council's budget. These include:-
- Periodic information to staff;
  - Publication on council website of our 'financial challenges' leaflet;

- Reports to each of the Area Committee's inviting feedback on their respective budget proposals and options for savings; the resolutions of each Area Committee are provided at [Appendix J](#) and the Executive is requested to note these when deliberating on the recommended budget. Attention is drawn to the resolution from the West Craven Committee regarding the land drainage budget saving proposal;
- Information has been sent to the East Lancashire Chamber of Commerce based on the reports presented to the Executive in December.

## **Precepts, Printing Council Tax Bills etc.**

92. The Major Preceptors will each set their budgets and council tax during February. Details of their respective precepts and council tax charges will be reported to the meeting of Council on 22nd February when Council will be asked to approve the budget and council tax for Pendle.
93. Details of Town and Parish Council Precepts for 2018/19 have been requested by 5<sup>th</sup> February and a summary listing of those submitted as at the time of writing this report is provided in [Appendix K](#).
94. The scheduled date for council tax bills and accompanying leaflets to be printed is late February 2018 to enable the bills to be issued by mid-March at the latest. Should it not be possible for the main billing process to start by early March, it would not be possible to issue bills in sufficient time to ensure the first Direct Debit installments are collected on 1st April. Hence, it is important that Council Tax is set at the meeting of Council on 22nd February.

## **IMPLICATIONS**

### **Policy**

95. The Council's General Fund Revenue Budget supports the delivery of services in pursuance of the strategic objectives set out in the Strategic Plan.
96. The position reported for 2018/19 and the forward projections in the report continue to pose a significant challenge to sustaining current service delivery over the medium-term. There remains a need, therefore, to put in place a strategic approach to future financial planning with a particular focus on a move to a more sustainable cost base over the medium term planning period. The Council will also need to review policies on the delivery of existing services to determine whether the existing policy direction is affordable within the resources available.

### **Financial**

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

### **Legal**

98. The Council must calculate and approve its Council Tax Requirement for the forthcoming financial year in accordance with s32 and s43 of the Local Government Finance Act 1992 (LGFA 1992), annually.
99. Section 25 of the Local Government Act 2003 also requires the officer having responsibility for the administration of the Council's financial affairs (Financial Services Manager), to report to the Council on the robustness of the budget estimates and adequacy of financial reserves when determining its budget requirement under the LGFA 1992. This is considered in [Appendix A](#) and will be reported to Council on 22<sup>nd</sup> February when the budget is presented for approval.

## **Risk Management**

100. When considering the risks and risk management measures associated with the budget for next year, Councillors should note the draft statement on the robustness of the budget estimates and the adequacy of financial reserves shown at [Appendix A](#).
101. The development of the Council's budget is a complex task and is based on estimates of future income and expenditure. These estimates are made on the basis of the best information available at the time and can include a range of assumptions on factors like pay inflation, interest rates and demand for services.
102. Whilst efforts are made to ensure these estimates are robust, Councillors should be aware there is a risk that both internal and external factors may have an impact on budgetary performance. To help mitigate this the Council has in place various mechanisms including for example, financial and contract procedure rules, budgetary control and monitoring arrangements to ensure that it can take pro-active action should it be necessary.
103. Councillors should be aware that greater risk taking is one potential consequence of the ongoing search and pressure to find savings via 'technical' options whilst trying to preserve front line service delivery.
104. Whilst the budget recommended for 2018/19 is balanced, the medium-term financial plan indicates a significant deficit that is unsustainable in the medium term. Even using reserves to smooth the effect of expected reductions in funding, substantial budget savings need to be made to maintain a balanced budget. Using reserves in excess of the amounts referred in the budget strategy proposed would, in the absence of any increase in Government funding, present a real risk to maintaining basic levels of service and require significant savings to be identified in later years of the plan period.
105. The recommended budget for next year includes a number of budget reduction proposals. These proposals have been identified through the service and financial planning process. Any savings agreed must also be implemented effectively and on time and progress on this will be monitored throughout the year. The adopted Financial Strategy retains the four key themes of 'growing', 'charging' 'saving' and 'stop'. The report outlines the requirement for further substantial savings to be made and the importance of starting work on these now to ensure solutions can be implemented to achieve a balanced budget over the medium term.
106. 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**

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

## **Climate Change**

108. There are no climate change or sustainability implications arising directly from this report but the proposed budget includes provision, where necessary, to progress issues of sustainability for the Council contained within the approved Climate Change Action Plan.

## **Community Safety**

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

## **Equality and Diversity**

110. An initial equalities screening assessment was included in the previous budget report to the Executive in December. No new equality considerations have arisen since that report.

## **APPENDICES**

Appendix A	Draft Statement from the Chief Finance Officer on the Robustness of Estimates and Adequacy of the Council's Reserves and Balances
Appendix B	Review of the Council's Minimum Working Balance
Appendix C	Response to Consultation on the Local Government Finance Settlement 2018/19
Appendix D	'Firming Up' Adjustments
Appendix E	Revenue Budget Savings Proposals – Summary 2018/19 – 2020/21
Appendix F (i)	Narrative Supporting Revenue Budget Savings Proposals 2018/19
Appendix F (ii)	Narrative Supporting Revenue Budget Savings Proposals 2018/19 – Leisure Trust
Appendix G	Council Tax Exemplifications
Appendix H	Reserves and Balances
Appendix I	General Fund Revenue Budget 2018/19 – Management Team Recommendation
Appendix J	Responses to Area Committee Consultation
Appendix K	Town and Parish Council Precepts 2018/19

## **LIST OF BACKGROUND PAPERS**

First Budget Report – Presented to the Executive on 14<sup>th</sup> December 2017  
Provisional Local Government Finance Settlement 2018/19