REPORT OF:	**CHIEF FINANCE OFFICER**
TO:	**POLICY AND RESOURCES COMMITTEE**
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Report Author: Susan Guinness
Tel. No: 01282 661867
E-mail: susan.guinness@pendle.gov.uk

FINANCIAL STRATEGY
UPDATE OF THE MEDIUM TERM FINANCIAL PLAN 2019/22

PURPOSE OF REPORT

1. The purpose of this report is to provide the Committee with an update on the Council's Financial Strategy and Medium Term Financial Plan (MFTP) 2019/22 and to set out a draft Budget Strategy for the period.

RECOMMENDATIONS

2. The Committee is recommended to:

   a) note the uncertainty associated with our core funding beyond 2019/20 as explained in the report and in particular the increased uncertainty regarding the timing and implications of the Fair Funding Review and the move to 75% (formerly 100%) local retention of business rates income;

   b) note the proposed Financial Strategy for 2019/22 (and the supporting Medium Term Financial Plan 2019/22 as shown at **Appendix B**) 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 further reports throughout the year in order to assist with the development of budget proposals to reduce the Council's net expenditure by £1m as part of the budget process for 2019/20;

   d) in addition to (c) above, agree that further work also be undertaken to develop options to address the balance of the projected budget deficit to 2021/22 with the outcomes reported to this Committee as part of the budget process for the current year.

REASONS FOR RECOMMENDATION

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

ISSUE

Background

4. Councillors are aware of the significant reductions in local government, notably since 2010. The next financial year represents the final year of the Government's 4-year funding offer to local authorities which this Council accepted during 2016/17. The level of core funding from government beyond 2019/20 is uncertain at this time and will primarily be determined by the outcome of the following matters:

   - **2019 Spending Review –** this will establish the funding allocations for Government departments from 2020/21 including local government (within the Ministry of Housing, Communities and Local Government MHCLG);

   - **The Fair Funding Review** – Central government funding for local authorities is based on an assessment of its relative needs and resources. The overarching methodology that determines how much funding each authority receives each year was introduced over ten years ago and has not been updated since funding baselines were set at the start of the 50 per cent business rates retention scheme in 2013/14. It is widely agreed across the sector that the formulae are overly complex, lack transparency and, as they have not been updated for a long time, are now out of date. The government is therefore undertaking the Fair Funding Review to update the needs formula and set new funding baselines for the start of the new 75 per cent business rates retention scheme, from April 2020.

   - **75% Business Rates Retention system –** the first major update to the current scheme, established on 1st April 2013, which allowed for 50% local retention of business rates income. The design of the new system has yet to be confirmed.

5. Each of the above will impact to varying degrees on the level of funding the Council will receive from 2020/21. However, the outcomes from each will not be known for a period of time and hence this makes financial planning now for the next three years more problematic. The Committee is asked to acknowledge this and accept that the position is very likely to differ from that presented in this report, notably for the period after 2019/20.

6. It is in this context, that the report provides an update to the Financial Strategy and Medium Term Financial Plan for the period 2019/22 as well as highlighting those matters that the Committee should consider as it looks to formulate a Budget Strategy for the next financial year and over the medium term.

Review of Budget Strategy for 2018/19

7. 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 2018/19

Strategy Area	Proposed	Agreed	Financial Impact £000
Council Tax	Increase in Council Tax of £7.48 (2.99%)	Increase of £7.48 (2.99%)	NIL
Budget Growth	No Growth	No Growth	NIL
Budget Savings	Savings of £0.511m**	Savings of £0.237m	+274
Net Impact			**+274**
Use of Reserves	Use of Reserves £1.018m	Use of Reserves £1.292m	(274)
Balanced Budget			**-**

*** residual savings requirement as reported to Council on 22/2/18 (savings of £610k had already been approved in advance of Budget Council).*

8. As Table 1 indicates, in comparison to the proposed budget strategy, the decisions taken to agree the final budget for 2018/19 resulted in a budgeted increase in costs of £0.3m which was met by an increase in the use of reserves.

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

Funding Outlook 2019/22

10. 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 75% local retention of business rates.

11. 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 (124 homes being the threshold for Pendle in 2018/19).

12. 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. The challenge is the extent to which the Council can influence the conditions required for growth in our tax base so as to deliver additional income within the plan period.

13. 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 in 2019/20. However, beyond this, the position for the final two years of the plan period is very difficult to estimate at this time for reasons outlined above.

14. Subject to the caveat outlined above the projected funding allocations for the Council from 2019/20 are as shown in the table below:

Table 2: Forecast of core government funding to 2021/22

Year	Revenue Support Grant £'000	New Homes Bonus £'000	Sub-total £'000	Estimated share of NNDR £'000	Total Core Funding £'000	Change % Annual	Cumul.
2018/19	1,707	488	2,195	3,804	**5,999**		
2019/20	1,145	250	1,395	4,137	**5,532**	(7.8%)	(7.8%)
2020/21	900	113	1,013	4,220	**5,233**	(5.4%)	(12.8%)
2021/22	600	13	613	4,305	**4,918**	(6.0%)	(18.0%)

15. As the Table indicates, it is estimated on current projections that the Council's core funding will have reduced from £6m in 2018/19 to £4.9m by 2021/22, a cumulative reduction of £1.1m or 18% over the period shown above.

New Homes Bonus (NHB) Allocations

16. The Council will receive a NHB allocation of £488k in 2018/19 consisting of legacy payments for periods prior to October 2016 of £475k and £13k being the affordable homes premium for additional units of affordable housing in the period between October 2016 and October 2017.

17. The current year is the second 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 and to only pay it on units of additional housing above a specified threshold – on inception of the new scheme this was set nationally at 0.4% of the number of Band D equivalent dwellings (c124 dwellings in this year for Pendle) and remained unchanged for the current year. As a result of these changes the medium-term financial plan currently assumes the following amounts of NHB:

New Homes Bonus (£m)	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
2013/14 allocation	0.179				
2014/15 allocation	0.341				
2015/16 allocation	0.238	0.238			
2016/17 allocation	0.137	0.137	0.137		
2017/18 allocation	0.100	0.100	0.100	0.100	
2018/19 allocation		0.013	0.013	0.013	0.013
2019/20 forecast allocation			0.000	0.000	0.000
2020/21 forecast allocation				0.000	0.000
2021/22 forecast allocation					0.000
Total Allocation pre scaling	**0.995**	**0.488**	**0.250**	**0.113**	**0.013**

18. The Committee will note the current planning assumption is for no 'new' bonus payments in each of the next three years. This reflects a worse-case scenario as well as acknowledging we have to increase our housing stock by a minimum of 124 Band D units annually before any additional bonus becomes payable. Whilst we may gain further payments for the affordable homes premium these will be treated as windfall income in the year.

Council Tax

19. The Council's share of council tax at Band D is currently £257.64. Councillors approved an increase of £7.48 (2.99%) when setting the budget for this year, being the maximum increase permitted for district councils. Current council tax referendum principles limit increases in council tax for district councils to the following:

….the relevant basic amount of council tax of an authority (district council) is excessive if the authority's relevant basic amount of council tax is (a) 3%, or more than 3%, greater than its relevant basic amount of council tax for the preceding year; and (b) more than £5 greater than its relevant basic amount of council tax for the preceding year.

20. The MTFP assumes the principles will remain unchanged for 2019/20 allowing a maximum increase of 2.99% before reverting to the previous maximum of 1.99% in later years.

21. The government's preferred measure of local authority funding is their forward projection of council spending power and in the most recent data published as part of the finance settlement for this year they assume local authorities will apply the maximum permitted increase in council tax each year.

Business Rates – move to 75% local retention

22. Councillors will be aware of the Government's former intention for local government to retain 100% of business rates by 2019/20. This has since been delayed although the government has said it remains committed to its implementation. The Government aim is now for councils to retain at least 75% of business rates in 2020/21. Currently, business rate income is shared on the basis of 50% retained centrally (government) and 50% retained locally (Pendle 40%, County Council 9% and Fire Authority 1%).

23. This is important as the intention behind moving to 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.

24. Moving to such a model has implications for the Council and adds even greater emphasis to the importance of taking action to stimulate and grow the local economy and housing market to grow our tax base (both for council tax and business rates) to help sustain funding for services.

25. At the same time as work nationally, on moving to 75% local retention of business rates, is taking place, the Government is also undertaking a separate review entitled the 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 the revised business rates retention scheme.

26. Both 75% rates retention and the Fair Funding Review could have significant financial implications for this Council but at this time they cannot be reliably assessed. The design of the revised rates retention system is not yet confirmed and various work programmes are in progress looking at key aspects of the scheme.

27. At this time the resources available to the Council from 2020/21 onwards 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 an underlying increase in business rates.

28. 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).

29. 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 based on our ‘needs’ relative to the ‘needs’ of other local authorities. A response was submitted in March 2018 to an initial technical consultation by MCHLG. This consultation focused specifically on potential approaches that have been identified to measure the relative needs of local authorities and the Governments response to the consultation feedback is awaited at the time of this report.

Estimated Balances and Reserves

30. 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 2017/18. The intention is to report on this work to the June meeting of the Committee. The report will consider the scope available to transfer reserve balances to the Budget Support Reserve to assist with the transition to a lower cost base over the medium term.

31. 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 Reserve (£250k);
    - the Council no longer receives income by way of the former sharing arrangements with Housing Pendle (now part of the Together Housing Group) under which it shared VAT savings and receipts from property sales under the former right to buy framework. Both these arrangements expired on 31st March 2017.
    - certain earmarked reserves (e.g. Local Development Framework, VAT Partial Exemption, and Insurance Reserve) are held either as part of the Council’s management of risks or to help smooth out ‘lumpy’ spending profiles from one year to the next. These are reviewed annually, both as part of the closure of the Council’s accounts and also as part of the budget setting process.

32. It is stressed that whilst the use of 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. The latest position on reserves based on the draft outturn for last year and the approved budgeted use in this year is shown in **Appendix A**.

Medium Term Financial Plan 2019/22

33. Work has been ongoing to update and roll forward the Council’s MTFP for the period 2019/22. This takes into consideration decisions on the budget for 2018/19 and the outcome of this work forms the basis of this report.

34. Table 3 below provides a summary of the MTFP 2019/22 whilst a more detailed analysis is provided at **Appendix B** (which, at this stage, excludes any use of reserves):-

Table 3: Medium Term Financial Plan 2019/22 (*No Use of Reserves*)

	Approved Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
Net Expenditure	13,489	14,286	14,936	15,814
Less Retained Business Rates	(3,805)	(4,138)	(4,220)	(4,305)
Less Revenue Support Grant	(1,707)	(1,145)	(900)	(600)
Fiscal "Gap"	**7,977**	**9,003**	**9,816**	**10,909**
Collection Fund Surplus – C. Tax	(336)	(180)	(150)	(100)
Collection Fund Surplus – NNDR	(253)	(352)	(150)	(150)
Council Tax Income	(6,096)	(6,326)	(6,500)	(6,679)
Local Funding "Gap"	**1,292**	**2,145**	**3,016**	**3,980**

Source: Appendix A

35. Table 3 shows, **before considering the use of reserves**, a projected deficit on the Council's MTFP of £4.0m by 2021/22 with the most immediate issue being a budget shortfall in 2019/20 estimated currently at of £2.1m **assuming no action is taken to deal with this shortfall.**

36. 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 C** and the Committee is asked to note these at this stage.

The Financial Strategy 2019/22

37. The Local Government Finance Settlement for 2018/19 set 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. Subject to agreement it may also include a review of 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.

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

Growing

Growth in Retained Business Rates Income

39. 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.

40. To put this in some context, the Council's business rates tax base is currently £52.5m. 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 (adopting the current standard NNDR multiplier of 49.3p and assuming no other changes).

Pooling of Business Rates

41. The Council has remained a member of the Lancashire Business Rates pool for 2018/19. 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. Based on the provisional outturn for 2017/18 (subject to audit) the Council benefitted from a retained levy of £0.52m gross (£0.47m net of the 10% share due to LCC). More information on this will feature in the 2017/18 outturn report to the June meeting of the Committee.

Growth in New Homes Bonus (NHB)

42. 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. As explained above in this report we have to exceed a minimum threshold before we become eligible for the bonus.

43. 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.

44. There are indications that the Council *could* benefit from additional new homes bonus in 2019/20 provided the current scheme rules and % baseline remain unchanged; build out rates for housing in the Borough show some encouraging signs; however, our entitlement to new homes bonus in the current year was impacted by an increase in the number of empty homes, reversing the positive trend witnessed in recent years. As a result more detailed consideration is currently being given to what steps we can take to help address this linked to the Council's Empty Homes Strategy.

Charging

45. The Council reviews its fees and charges annually. The next review will be undertaken in the coming months and reported to the Committee in September. In doing so, the opportunity will be taken to revisit the introduction of charges for services that residents value, for example, introducing administrative charges for replacement Wheeled Bins and looking again at the fee level for the garden waste service.

46. 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

47. 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.

48. 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

49. This is a more recent theme within our strategy, resulting from the follow up visit by the LGA Peer Review team in late 2016. 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 2019/22

50. The Council has a good track record of delivering savings since 2010, from when savings totaling c£8m have been realised. The budget process for the current year included agreed savings of £0.85m. Many of these savings have been achieved whilst minimising the impact on street level services which Councillors identified as a priority.

51. 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.

52. With this in mind, Councillors have 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 (accepting much has been done under this theme the focus next is the transfer of specific parks);

- 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. as part of our move to become '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 driving out further efficiencies from the Council's partnership arrangement with Liberata;

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

- working in partnership with other organisations to share the costs of service delivery.

53. The Committee should note that this is not an exhaustive list. Work to develop these options will continue to build on developments which helped inform the 2018/19 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

54. 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£0.8m from reserves and balances whilst the revenue budget outturn was c£0.2m underspent.

55. More detailed information on the Council's reserves and balances will be presented to the Committee in June when the outturn for 2017/18 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 2021/22 (and the balance of the Bond Reserve will remain unchanged at £0.25m)*.

- *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 Support Reserve to bolster support for the budget*; and

- *an amount of £2.3m will be used from the Budget Support Reserve over the next three years (£1.1m in 2019/20, £1.06m in 2020/21 and £150k in 2022/22).* **This, combined with the budgeted use in the current year of £1m means, on current projections, the Council will have fully used the balance available on the Budget Support Reserve as at 31/3/18.**

56. Table 4 below shows the impact of the applying this Strategy on the Council's Medium Term Financial Plan. A key objective of the work required to address the budget shortfall is to try and ensure there is a residual balance on the Budget Support Reserve of c£1m for use in 2021/22. On current plans it is projected that there will only be £150,000 left on this reserve by March 2021 which explains in part why the deficit in the final year of the plan period increases significantly. There is the option of varying the profiled use of the reserve from that currently assumed in the plan. We could for example use less in 2020/21 and increase the savings requirement for the year. This will be maintained under review as the plan progresses.

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

	Approved Budget 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
Local Funding "Gap" **(per Table3 above)**	**1,292**	**2,145**	**3,016**	**3,980**
Use of Budget Support Reserve	(990)	(1,100)	(1,060)	(150)
Use of Specific Reserves	(302)	(90)	(45)	(38)
Total Use of Reserves	**(1,292)**	**(1,190)**	**(1,105)**	**(187)**
Residual Funding "Gap"	**-**	**955**	**1,911**	**3,792**
Year on Year Savings Required	**-**	**955**	**956**	**1,881**

57. As Table 4 indicates, applying the reserves strategy above requires a further £2.5m to be drawn from reserves but still means that savings of £3.8m are required over the next three years. The most immediate issue being the need to find savings of c£1.0m for 2019/20.

Draft Budget Strategy 2019/22

58. Looking specifically at the Budget Strategy for 2019/22, 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 £2.3m from the Budget Support Reserve in support of the budget (plus the use of specific reserves where these are required).
- no prudential borrowing as already assumed in the Medium Term Capital Programme unless such borrowing results in ongoing revenue savings (the affordability of the c*apital programme will be reviewed in parallel with the Revenue Budget*);

59. Applying this Strategy requires estimated budget savings of c£3.8m (as per Table 4 above) to be identified over the next three years, all of which should be ongoing reductions in the Council's budget. *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 2019/20

60. The Committee will be aware that the bulk of savings for the current year originated from measures linked primarily to changes in the waste collection service, staffing generally, channel shift, town and parish councils and the Leisure Trust. Given their financial significance it is inevitable that many of these areas will come under renewed scrutiny again as we develop the budget for 2019/20.

61. However, other measures will also be needed to generate the scale of savings required. And 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. We will also explore the extent to which we can generate technical savings (recent examples have included the business rate pooling arrangement, provisions and the minimum revenue provision).

62. Initial work has commenced and 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 have in the previous 2 budget rounds. To this end we propose that options for savings be submitted to meetings of Council in October/November with final decisions on the budget to be taken in February 2019.

63. 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.

Medium Term Capital Programme 2019/22

64. 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 Committee. This will build on the capital outturn for the 2017/18 financial year.

Flexible use of capital receipts

65. As reported previously, there is some 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 each year and this was agreed by Council in February for 2018/19. This earmarked the potential use of up to £0.5m of capital receipts to support business change projects. Whilst at this time there is nothing built in to the financial plan in respect of this 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

66. The approach to consultation as part of the preparation of the budget for 2019/20 will form part of the work programme and be reported via the Committee. 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.

67. 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 this Committee. With respect to the business community, budget papers will be sent to the East Lancashire Chamber of Commerce following the December meeting of the Committee.

Next Steps

68. 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 2019/20:-

Table 7: Forward Timetable for the Development of the Budget 2019/20

Date	Action	Status
May	Update of Medium Term Financial Plan	Completed
June	Completion of Service Plans	
September	Mid-year review of savings options – report to P&R Committee	
October	Refine Medium Term Financial Plan to 2021/22 – 1st tranche of savings to Council for decision	
	Decision deadline for Council's membership of Lancashire Business Rates Pool (31/10/18).	
Nov	Early drafting of Budget for 2019/20 and Revised Budget for 2018/19	
Nov/Dec	Provisional Local Government Finance Settlement 2019/20	
	P&R Committee considers initial budget submissions (revenue & capital) – 2nd tranche of savings to Council for decision.	
Dec-Jan 2019	Proposed Draft Budget 2019/20 developed	
Jan 2019	Final Local Government Finance Settlement 2019/20	
Feb 2019	P&R Committee recommends Budget and Council Tax to Council	
Feb 2019	Council sets final Budget and Council Tax for 2019/20	

IMPLICATIONS

Policy

69. 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

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

Legal

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

Risk Management

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

73. The key risk for the Council highlighted in this report is the future funding provided by the Government for both revenue and capital spending. The cumulative reduction in our core funding since 2010/11 poses a significant business risk to the Council and requires effective action to be taken.

74. 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.

75. 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.

76. The most immediate issue for the Council is develop plans to save £1.0m in 2019/20 as well as developing other options which will reduce the Council's net expenditure by £3.8m over the period to 2021/22.

77. There remains a great deal of uncertainty regarding the timing and implications of reforms to the business rates retention system combined with the outcome of the Fair Funding Review. The Government has reiterated its commitment to implement a system whereby 75% 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

78. 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

79. 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

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

Equality and Diversity

81. 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 – Summary of Reserves 2018/22 and post the revenue outturn for 2017/18
Appendix B – Medium Term Financial Plan 2019/22
Appendix C – Key Assumptions for Medium Term Financial Plan 2019/22

LIST OF BACKGROUND PAPERS

Papers held in Financial Services