

REPORT OF: CHIEF FINANCIAL OFFICER

TO: POLICY AND RESOURCES

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GENERAL FUND REVENUE BUDGET 2019/20

PURPOSE OF REPORT

1. The purpose of this report is to:-
 - a) update Policy and Resources Committee on elements of the Autumn Budget announced by the Chancellor on the 29th October 2018;
 - b) obtain approval for the Revised Budget for 2018/19 and to present the **draft** Base Budget for 2019/20 for initial consideration;
 - c) present a budget strategy (including savings proposals) as part of an approach to achieve a balanced budget in 2019/20 (along with outline proposals to 2021/22); and
 - d) request Policy and Resources Committee give consideration to the development of a budget for 2019/20 and for the Medium Term Financial Plan period (to 2021/22).

RECOMMENDATIONS

2. The Policy and Resources Committee is recommended to:-
 - a) agree, in view of the seriousness of the Council's forecast financial position, that this report be shared with all Councillors so that they are fully aware of the position;
 - b) approve the Revised Budget for 2018/19;
 - c) provide delegated authority to the Chief Financial Officer, in consultation with the Portfolio Holder for Finance to prepare and submit the Council's response to the consultation on the Provisional Local Government Finance Settlement for 2019/20, details of which are expected prior to the festive period;
 - d) note the draft Base Budget for 2019/20, the forecast Medium Term Financial Plan and the assumptions underpinning both;

- e) note the significant risk to the Council's funding position with the proposed cessation of Revenue Support Grant (RSG) post 2019/20 if there is no compensating funding provided through the Business Rates Retention Scheme;
- f) as part of the development of the Policy and Resources Committee's Budget Strategy for 2019/20:
 - i) consider Management Team's initial proposals to achieve a balanced budget for 2019/20 and in doing so, review the savings proposals shown at **Appendix F** with a view to submitting agreed proposals to Council in February;
 - ii) undertake a review of the draft Base Budget for 2019/20 to identify any areas where further savings proposals should be brought forward for consideration as part of the budget process;
- g) note the outline savings proposals to 2021/22 and agree that as a minimum, these options should form the basis of the further work necessary to achieve a balanced budget in these years;
- h) note the financial planning assumption of a Band D council tax increase of 2.99% for 2019/20 pending confirmation of the council tax referendum principles as part of the Local Government Finance Settlement for 2019/20;
- i) note the timetable for the remainder of the budget process as set out in the report.

REASONS FOR RECOMMENDATIONS

- 3. To continue with the implementation of the Council's Financial Strategy and to inform the development of the Council's budget for 2019/20.

ISSUE

Background

- 4. This report focuses primarily on the Council's revised budget for 2018/19 and the draft base budget for 2019/20. Information is also provided on the Medium Term Financial Plan 2019/20 to 2021/2022 to allow the Policy and Resources Committee to consider budgetary decisions for next year in the context of the Council's projected medium term financial position. This is crucial given the significant funding reductions faced by the Council and the need for Policy and Resources Committee to take action to significantly reduce the Council's net expenditure.
- 5. This report sets out the issues associated with this and proposes a budget for 2019/20 and the medium term for Policy and Resources Committee to consider and if agreeable, to recommend for adoption by the Council in February 2019.
- 6. The Policy and Resources Committee is advised that this report has been prepared in advance of the Provisional Local Government Finance Settlement for 2019/20. In recent years the Settlement has been published in the run up to Christmas and once details are available this may result in changes to the Council's funding compared with the position outlined in this report. Given the 4 year funding offer accepted by this Council, the key areas of uncertainty centre on whether any further changes will be made to the New Homes Bonus regime and the forecast of business rates income due to appeals post the revised check and challenge system of lodging appeals and the 2017 Revaluation.

Autumn Budget 2018

7. The Chancellor delivered the Government's Autumn Budget on the 29th October 2018. However, there is little to report back to Councillors in terms of the direct implications for the Council.
8. More information generally on the various measures set out in the Budget together with the Local Government Association (LGA) response, can be found on the LGA's website. The LGA published its 'on the day briefing' in response to the Budget which can be viewed [here](#)

Local Government Finance Settlement

Funding for 2019/20

9. As indicated above, at the time of writing the Government has yet to announce the Provisional Local Government Finance Settlement. If details are known prior to the Committee, a verbal update will be provided at the meeting of the Committee.
10. As is traditionally the case, once the provisional settlement is published there is a period allowed for written representations. It is proposed to maintain the Council's established practice whereby the Chief Financial Officer prepares and submits the Council's response in consultation with the Portfolio Holder for Finance. If agreeable, the Policy and Resources Committee is asked to provide delegated authority to the report author for this purpose.
11. The level of revenue support grant should be consistent with the figures announced as part of the Government's 4 year funding offer but as mentioned above there remains uncertainty regarding New Homes Bonus and business rates income. Pending publication of the Settlement, the forecast funding position to 2021/22 is in line with that set out in the last report to the Policy and Resources Committee in May. Table 1 below summarises the estimate of core revenue funding the Council is expected to receive over the next 3 years:-

Table 1: Estimate of Core Revenue Funding for 2019/20 to 2021/22

	Actual Funding 2018/19 £000	Estimated Funding 2019/20 £000	Estimated Funding 2020/21 £000	Estimated Funding 2021/22 £000
Estimated Business Rates (see addendum below)	3,804	4,138	4,220	4,305
Add Revenue Support Grant	1,707	1,145	900	600
Total	5,512	5,283	5,120	4,905
less Council Tax Support Grant	(1,236)	(1,236)	(1,236)	(1,236)
less Homelessness Grant	(97)	(97)	(97)	(97)
Formula Grant (Equivalent)	4,179	3,950	3,787	3,572
Add New Homes Bonus	488	250	113	13
Estimate of Funding	4,667	4,200	3,900	3,585
Cumulative Change since 2010	64.6%	68.1%	70.42%	72.81%

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

	Actual Funding 2018/19 £000	Estimated Funding 2019/20 £000	Estimated Funding 2020/21 £000	Estimated Funding 2021/22 £000
Individual Authority Business Rates	7,064	7,469	7,619	7,771
Tariff	(3,260)	(3,332)	(3,399)	(3,467)
Estimate of Retained Business Rates	3,804	4,138	4,220	4,305

12. As the table above indicates, it is currently estimated that the Council's funding on a like for like basis will fall from £4.667m in 2018/19 to £3.585m in 2021/22 a reduction of c£1.1m (and a cumulative reduction of 72.81% since 2010/11).

Business Rate Retention Pilot

13. As the Committee will be aware, and as discussed elsewhere in this report, the Government has signaled its intention to change the Business Rates Retention (BRR) Scheme with effect from 2020/21 to allow Councils to keep 75% of the business rates raised locally (the proportion currently is 50%). A consultation on this change is expected during 2019. In the meantime the Government has been piloting 75% BRR Schemes with selected Local Authorities, with such pilots in place for 2017/18 and 2018/19.
14. Earlier this year, the Government invited Councils to submit a bid to pilot the operation of 75% BRR Scheme in 2019/20. As Councillors will be aware, the Council is already part of a Business Rates Pool which comprises Lancashire County Council and most other District Councils in Lancashire. Given the existence of the current pooling arrangements, the Lancashire Business Rates Pool submitted a bid to become a 75% BRR Scheme pilot.
15. In essence, the 75% BRR Scheme will mean that the Council will retain more business rates than at present but will forgo its Revenue Support Grant. As with the current pool, there will be no safety net (although experience to date, the structure of the Council's tax base and the availability of business rate reliefs, limits this risk). The assessment of the Council's position under the proposed Pilot is that the Council would be no worse off than already assumed for 2019/20 but has the potential to retain more business rates arising from growth in the Business Rates tax base.
16. The outcome of this bid is not known at the time of writing this report; it is expected to be released with the Provisional Local Government Finance Settlement. To that end, an update on this matter will be provided at the meeting of the Committee.
17. In the meantime, regardless of the outcome of the Pilot bid, provisional estimates for next year support the Council remaining a member of existing Business Rates pool in 2019/20 and hence we have opted to remain in the Pool for 2019/20. The pooling agreement will continue into 2019/20 unless an existing pool member gives notice to withdraw. This is not considered likely at this stage, but if this does happen the whole pool would be revoked and the significant financial benefits accruing to all other pool members would be lost.

Revised Budget 2018/19

18. Policy and Resources Committee receives periodic reports during the year providing details of the budget monitoring that has been undertaken. Table 2 below provides a summary of the Revised Budget for 2018/19 with a detailed analysis provided at **Appendix A**. This indicates that in comparison to the Approved Budget for the year, it is estimated that there will be an underspend of £167k for the year.

Table 2: Revised Budget 2018/19

	Approved Budget 2018/19 £000	Revised Budget 2018/19 £000	Variance £000	Variance %
Net Cost of Services	15,364	15,715	351	2.3
Less: Corporate Income/Expenditure	(1,422)	(1,984)	562	39.5
Net Expenditure	13,942	13,731	(211)	1.5
Use of Specific Reserves	(1,089)	(1,045)	44	4.0
Net Expenditure	12,853	12,686	(167)	1.3
Budget Requirement	12,197	12,197	-	-
Use of Budget Support Reserve	656	489	(167)	25.5

Source: Appendices A and B

19. The key variances between the Approved and Revised Budget which give rise to the projected underspend of £167k are as follows:-
- reduction in the cost of debt mainly due to the re-phasing of planned expenditure within the Capital Programme. As Capital Projects have been slipped into next year, this is not a recurring budget savings. (MRP £121k; External Interest Payable £255K);
 - additional income received through fees and charges and the receipt of Homelessness Grant (£95k);
 - reduces employee cost due to turnover of staff (£93k);
 - additional expenditure in respect of transport incurred due to increased fuel costs (£62K);
 - reduced income from miscellaneous property following events such as asset disposal, change of ownership or occupancy (£37k);
 - net cost of buildings related expenditure for playing fields budget for rates, late receipt of 2018/19 invoices and reduced rental income (£28k);
 - increase in waste disposal charges greater than assumed in the original budget (£20k);
 - Maintenance of shared areas at No1 Market Street following first (part) year as landlord (£15k).
20. An analysis of the major variances (+/- £10,000) is provided at **Appendix B**. Assuming the underspend of £167k is maintained up to the year end, this will mean that the amount contributed from the Budget Support Reserve to balance the Council's budget for 2018/19 will reduce. Combined with the transfer of £466k to the Budget Support Reserve from various other reserves, as agreed by the Policy and Resources Committee at its meeting in 26th June 2018, the net use of the Budget Support Reserve in 2018/19 is estimated to be £489k compared with the Approved Budget contribution of £656k.
21. The Revised Budget for 2018/19 reflects the current best estimate of the likely outturn position for the year. Work will continue on the monitoring of the budget for the remainder of this financial year and any further variations will be reported as part of the periodic monitoring reports.

Base Budget 2019/20

22. Work has been underway in the last few months on the development of the Council's Base Budget for next year. Table 3 below provides a summary of the draft base budget for 2019/20 compared with the Approved Budget in the current year:-

Table 3: Base Budget 2019/20

	Approved Budget 2018/19 £000	Base Budget 2019/20 £000	Variation £000	Variation %
Net Revenue Expenditure	13,942	14,062	120	0.9
Use of Specific Reserves	(1,745)	(1,254)	491	(28.1)
Net Expenditure (after Specific Reserves)	12,197	12,808	611	5.0

Source: Appendices A and C

23. The variation in table 3 above has been brought about in the main by the following:-
- a reduction in the use of specific reserves to reflect the reducing balances available;
 - annual inflationary costs;
 - reduction in grant income such as New Homes Bonus which is generated from achieving housing growth; and
 - removal from the budget of carried-over funds from 2017/18.
24. The key changes in the budget are set out in **Appendix C**. Throughout the development of the Council's Financial Strategy for 2019/20 to 2021/22, a number of issues have been highlighted that will impact on the budget for 2019/20 (and future years) and which may need to be addressed. In some cases, progress has been made, and in others there is further work to be undertaken.
25. More detail of these changes is provided in **Appendix D**. As above, amongst the most significant changes impacting on 2019/20 are as a consequence of the previous changes made to the New Homes Bonus Incentive grant scheme. In recent years, the number of years by which this grant is paid has been reduced and an annual threshold introduced (currently 0.4% or circa. 120 properties for Pendle) which sets the minimum number of new homes built/empty homes occupied before any grant is paid. On the latter, significant in-roads have been made in reducing the number of empty homes within the Borough to increase the Council's chance of exceeding the threshold but, in the last Technical Consultation on Local Government Funding, it was intimated that the threshold would be increase for 2019/20. The announcement on this matter is expected with the Provisional Settlement.

The Strategy for Reserves and Balances

26. An analysis of Balances and Reserves is provided at **Appendix E**. At the meeting of the Policy and Resources in May 2018, the following strategy for using Balances and Reserves was proposed:-
- the Minimum Working Balance to remain at £1.0m over the period to 2021/22 with the balance on the Bond Reserve (£0.250m);
 - the use of £2.3m from the Budget Support Reserve over the next three years with £1.1m in 2019/20, £1.0m in 2020/21 and £0.150 in 2021/22;
 - Committed (Specific) Reserves will be used only for the purposes for which they have been set aside and will be subject to an annual review. The current Medium Term Financial Plan shown below assumes the use of £0.330m of specific reserves in the period to 2021/22.

27. As Councillors will be aware, the Policy and Resources Committee have since approved the transfer £0.466m from other specific reserves into the Budget Support Reserves.
28. Table 4 below provides an analysis of how non-committed reserves are estimated to be used over the next four years with a residual balance available as at 31st March 2022 estimated at £1.430m of which the Minimum Working Balance and the Bond Reserve together account for £1.250m:-

Table 4: Estimated Use of Non-committed reserves 2019/20 to 2021/22

	Estimated Opening Balance £000	Less Committed Reserves*2 £'000	Non-committed (Available) Reserves £'000	Approved / Proposed Budgeted Use (net) £000	Estimated Closing Balance £000
Reserves 31/3/18*1	4,879	(564)	4,315		
2019/20	4,315	(55)		(1,100)	3,160
2020/21	3,160	(10)		(1,060)	2,090
2021/22	2,090	(10)		(650)	1,430
Total				(2,810)	

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

*2 – More information on committed reserves is shown in Appendix E

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

	<i>May 2018 Report</i> £000	<i>December 2018 Report</i> £000
Proposed use in 2019/20	1,190	1,254
Proposed use in 2020/21	1,105	1,151
Proposed use in 2021/22	190	734
Total over 3 years	2,485	3,139

30. The reason for the revised profile is to smooth the use of reserves and the impact of the total budget savings required to balance the budget over the medium term, whilst providing some time to effect the major decisions required to implement the necessary savings over the Plan period.

Medium Term Financial Plan 2019/20 to 2021/22

31. In developing the base budget for 2019/20, work has also been undertaken to update the Medium Term Financial Plan to 2021/22. The assumptions underpinning the development of the Medium Term Financial Plan are set out at **Appendix D**. Table 5 below provides a summary of the latest financial forecast:

Table 5: Medium Term Financial Plan 2019/20 to 2021/22

	Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
Net Revenue Expenditure	14,062	14,959	15,915
<u>Less:</u>			
Government Grant (Revenue Support Grant)	(1,145)	(900)	(600)
Retained Business Rates (net)	(4,538)	(4,370)	(4,455)
Council Tax Income (incl. Colln Fund Surplus)	(6,759)	(6,774)	(6,974)
Total Funding	(12,442)	(12,044)	(12,029)
Local Funding Gap	1,620	2,915	3,886
Use of Reserves	(1,254)	(1,151)	(734)
Cumulative Savings Required	366	1,764	3,152
Previous Year's Savings (assumes all achieved)		(366)	(1,765)
In-Year Savings Requirement	366	1,399	1,387

32. As the table indicates, to achieve a balanced budget in 2019/20, ongoing savings are required of at least £0.366m, with a further £1.4m required in both years 2020/21 and 2021/22. **Cumulatively, on the basis of current forecasts, the savings required over the next 3 years total £3.15m.** Note the savings requirement shown for 2019/20 are net of those savings already agreed by the Policy and Resources Committee and Council to November 2018.

The Future of Revenue Support Grant (RSG)

33. It should be noted from table 5 above that it is assumed Revenue Support Grant (RSG) will be received in 2020/21 (£900k) and 2021/22 (£600k). Given proposed changes to the funding regime for Local Government, expected to be implemented from 2020/21, this is not guaranteed as the Government has indicated that payments of RSG will end.
34. Councillors will be aware that the Government is committed to undertaking a Comprehensive Spending Review (CSR) in 2019 which, amongst other matters, will determine the quantum of funding for Local Government over the medium term. During the current year the Government started the Fair Funding Review which, once the CSR confirms the quantum of funding, will determine the distribution of funding between Local Authorities. And to coincide with the Fair Funding Review, the Government has indicated that Business Rates Retained (BRR) by Councils will increase from 50% to 75% with effect from 2020/2. It is anticipated that the change to the BRR Scheme will mean the end of RSG payments.
35. Aside from the outcome of the CSR, and whether there is adequate funding for Local Government as a whole, the issue for the Council is whether the change in distribution of funding arising from the Fair Funding Review and the change to BRR Scheme will result in an increase in funding to compensate for the loss of RSG. At this stage, given the lack of information from Government, it is not possible to determine whether this will be the case with any confidence.
36. In contrast with the current assumption on RSG as set out in Table 5 above, in a scenario where if RSG is stopped from 2020/21 onwards and there is no additional funding from the BRR Scheme to compensate, then the overall budget deficit will increase resulting in a savings for 2020/21 of £2.299m and for 2021/22 of £1.087m as illustrated in Table 6 below:-

Table 6: Assumes No RSG funding in the MTFP to 2021/22

	Forecasted RSG £m	With RSG Current Savings Target £m	No RSG Potential Savings Target £m	Variation £m
2019/20	1.145	0.366	0.366	-
2020/21	nil	1.399	2.299	+0.900
2021/22	nil	1.387	1.087	+0.300

37. Putting this scenario into context with regard to the Medium Term Financial Strategy options below, members need to be mindful that the actions presented will need to be brought forward into the next financial year (2019/20) to bridge the potential budget gap in readiness for 1st April 2020.

The Financial Strategy for 2019/20 to 2021/22

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

- **Growing** the Council's income using the funding mechanisms now in place for local government, particularly the Business Rate Retention Scheme, Council Tax 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. That said, as indicated above, changes are afoot with both BRR and it is expected that the New Homes Bonus scheme will be withdrawn, with uncertainty as to whether it will be replaced with an equivalent incentive-based scheme for housing growth;
- **Charging** for services, raising income which will mean that it is possible to continue providing services that resident's value. This will mean reviewing the level of fees and charges, reducing the subsidy on some services and considering the introduction of new fees and charges. It may also include reviewing the level of discretionary reliefs / discounts and the local scheme of Council Tax Support.
- **Saving** costs by, for example, reviewing how the Council delivers services, doing things differently and more efficiently, scaling services to appropriate levels within the resources available to the Council and continually working with partners, including local town and parish councils and other adjacent local authorities to sustain local facilities and services.
- **Stop** – identifying what are no longer priorities for the Council or areas that are deemed lower priority and ceasing to spend resources on them. This theme resulted from the review by the LGA Peer Challenge Team who felt this was essential for the Council to address given the level of savings required.

Growing

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.

40. To put this in context, the Council's business rates tax base is currently circa. £52m. In broad terms, for every £1.5m growth in the Taxbase (equivalent to, say, an additional Superstore), the Council's share of business rate income would increase by c£290k per annum (assuming no other changes).
41. The Council's present strategy for economic development and regeneration focuses on growth in existing businesses within Pendle and reflects the delivery of the Jobs and Growth Strategy to ensure that those businesses that want to grow are supported in doing so. Examples of activity to support this Strategy include, for example:-
- a successful Gearing up for Growth Programme which offers grant funding and other support to new start-up and established businesses. This facilitates the growth in those businesses ultimately leading to both more jobs and additional business rates for the Council;
 - working with the Pendle Vision Board to promote and raise the profile of Pendle (and its constituent Towns) as a place to do business and as a means of encouraging networking between business, skills providers and the public sector;
 - bringing forward an extension of the existing Lomeshaye Industrial Estates as a strategic employment site, as identified within the Council's Core Strategy. Councillors have received regular updates on this matter over recent months;
 - redevelopment of the former Brierfield Mills, now known as Northlight. This substantial development will have a mixed use with tenants such as Lancashire Adult Learning, In-Situ and Burnley Football Club in the Community already in place.
42. In April 2018 a new rating list came into force following the 2017 revaluation. Since the list came in to force the Government has also introduced a number of measures designed to provide relief to businesses who face the largest increases. Details of these have been reported to the previous Executive with some of the measures will carry on over the Plan period. An update of Business Rates Reliefs, including those referred to in the Chancellor's recent Budget Statement, will be reported to Policy and Resources Committee in January 2019.

New Homes Bonus

43. This has been a significant source of revenue income for the Council in previous years; at its height, the Council received £1.0m 2017/18. Since the New Homes Bonus regime was revised this year, as explained above, the amount of New Homes Bonus paid to Pendle has declined markedly despite the Council's effort to both encourage new build and to bring empty properties back into use.
44. As indicated above, the key risk for the Council is that the threshold for new build houses/empty homes occupied is increased meaning that, for 2019/20, it is more difficult to secure additional New Homes Bonus. Again, though, it is anticipated that will be confirmed when the Council receives the Provisional Local Government Finance Settlement.
45. Looking ahead, should a housing growth incentive grant scheme continue, the Council's efforts to increase the housing stock and bring empty homes back into use in the Borough becomes of more importance as any additional income generated from such grant income will reduce the level of savings required and help sustain key services.

Charging

46. The Council reviews its fees and charges annually. The review for 2019/20 was reported to Policy and Resources Committee in September 2018 with a number of proposals agreed. The outcomes from the most recent review have been factored in to the draft budget for next year.
47. Proposals that have been considered and rejected previously by Councillors are also resubmitted at **Appendix F(1)**. This includes the introduction of administrative charges for replacement Wheeled Bins and changes to fees and charges for Cemeteries. A savings pro-forma is attached at **Appendix F(2)**. It should be noted that full cost recovery by introducing new charging policies forms part of the proposed Commercial Strategy elsewhere on this agenda.

Saving

48. Whilst the strategies of Growing and Charging offer opportunities to increase the Council's income, any growth in the near term will not make up for the significant reduction in core funding or resolve the Council's budget deficit and equally, the Council's ability to charge for services or reduce the extent of discounts will not, in isolation, generate sufficient income to make up for the funding shortfall. As a result the Council must continue with its efforts to reduce expenditure in other ways to ensure that it has a balanced budget over the medium term.
49. Work has been ongoing to identify potential savings options that could be implemented over the period to 2021/22. Given the magnitude of savings required, and bearing in mind the savings already achieved since 2010, an impact on frontline services is considered unavoidable.
50. In the year to date, the Council has already approved savings of £531k. An initial analysis of savings proposals for 2019/20 to 2021/22 is provided at **Appendix F(1)**. These total £3.123m and a summary of the proposals is provided in Table 7 below:-

Table 7: Savings Proposals

	Budget 2019/20 £000	Indicative 2020/21 to 2021/22 £000	Total Required to 2021/22 £000
Proposals from Management Team	466	2,657	3,123
Savings required per MTFP	366	2,786	3,152
Shortfall or (Surplus) of savings	(100)	129	29

51. The following issues should be noted about the savings proposals:-
- a) savings already agreed in this year (£551k) have been built in to the budgets now submitted;
- b) the remaining savings target for next year is now estimated at £0.366m. The saving proposals shown in **Appendix F(1)** total £0.466m for next year. Assuming all savings are agreed and implemented would lead to a reduction in the call of reserves;

- c) the savings proposals for 2020/21 onwards are estimated to be £2.7m and are provisional at this stage. More work will be required to develop them further and, indeed, in some cases this has already started, eg the Strategic Review of Leisure Services. But, given the savings delivered by the Council over recent years, it is inevitable that they will affect the delivery of current service levels and will present some challenging decisions for Councillors to take.
52. A narrative supporting each savings proposals for 2019/20 is provided at **Appendix F(2)**. Policy and Resources Committee is requested to consider these and advise which proposals it is willing to support at this stage and agree to recommend these to Council for approval when it next meets in February 2019.

Council Tax

53. For the purposes of financial planning only, the Medium Term Financial Plan assumes that Council Tax will increase by 2.99% in 2019/20 and each year of the plan period. An increase of 2.99% is likely to be the maximum permitted under government constraints for District Councils and these limits are expected to continue over the plan period. That said, the Council will not get confirmation of this until the Local Government Finance Settlement is announced. It has not been the case for a while that funding has been made available in return for a freeze on Council tax and therefore is it not expected for next year or over the period of the financial plan. The reality, is that the Government's own assessment of our core spending power assumes we will increase council tax by the maximum permitted each year.

Localisation of Council Tax Support Scheme

54. The Council's local scheme of council tax support has operated without any fundamental change, save for the annual uprating of parameters, since 2013/14 when the scheme was first introduced. Whilst Pensioner claimants remain protected under the scheme those of working-age continue to receive support at a maximum of 80% of calculated entitlement.
55. The estimated cost of the scheme for 2018/19 was £6.930m. The latest scheme monitoring indicates that it is likely to cost £6.624m, an underspend of £306k. Pendle's share of this is estimated at £43k and is reflected in the Council's budget already. This is primarily a result of a lower than estimated caseload. Universal Credit Full Service was rolled out by Department of Work and Pensions (DWP) in the Pendle area in November 2018. It is too early to predict the impact this will have on the cost of the Council Tax Support Scheme and Housing Benefits.
56. Aside from the annual uprating of benefits, allowances and rates which impact on the Council Tax Support, no substantive changes are proposed to the Scheme and in particular the maximum level of support for working age claimants will remain at 80% for next year. The Committee is asked to note this.

Medium Term Capital Programme 2019/20 to 2021/22

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

Budget Consultation

58. Budget consultation on the budget is planned or has been carried out as follows:-

- In relation to the organisational review, both staff and Unison have been involved in the development of proposals which were subsequently agreed by the Council at its meeting on 5th December;
- As in previous years, Budget papers will be referred to Area Committees for consideration; and
- In accordance with the statutory requirement to consult with the Business Community, consultation is planned with local industry and employers and will be conducted through the East Lancashire Chamber of Trade.

Management Team's Budget Proposal for 2019/20 (and to 2021/22)

59. Subject to confirmation of the financial settlement for 2019/20, and further to the analysis above, Management Team proposes the following budget strategy for 2019/20 for Councillors to consider:-

- an increase in Council Tax of 2.99% at Band D;
- implementation of all of the savings identified at **Appendix F** which will reduce the Council's net expenditure by £0.466m in next year;
- use of reserves at a level sufficient to achieve a balanced budget albeit within the parameters of the Reserves Strategy set out above.

60. Table 8 below provides details of Management Team's initial budget proposal for 2019/20:-

Table 8: Management Team's Initial Budget Proposals for 2019/20

	Budget 2019/20 £000	Indicative to 2021/22 £000	Total to 2021/22 £000
Savings Requirement	366	2,786	3,152
Growing	0	825	825
Charging	86	235	321
Saving/Stopping	380	1,597	1,977
Total Proposals	466	2,657	3,123
Shortfall / (Surplus)	(100)	129	29

61. The Policy and Resources Committee should note that the budget proposal set out above is not without its risks, including the following:-

- the level of savings required continues to pose a significant challenge for the Council. To achieve savings on the scale necessary is likely to require the Council to withdraw from some services and consider alternative service delivery models for others including further collaboration with the private as well as public and/or third sectors;

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

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

62. If the Council fails to make the level of savings currently required the shortfall can only be made up from finite reserves. This simply pushes the balance of savings required on to the next year and will exhaust the available balance of non-committed reserves quicker than planned. This is illustrated in Table 9 below which sets out a scenario under which additional savings of only £100k are achieved for 2019/20 and £500k in the remaining MTFP years:-

Table 9: Savings of only £100 in 2019/20 and £500k in each of the next 2 years

	Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
Savings Not Achieved b/fwd	-	266	1,165
Minimum Level of Savings Required (see Table 5)	366	1,399	1,387
Balance of Savings Required	366	1,665	2,552
In Year Savings 2018/19 for 2019/20	(100)	-	-
In Year Savings 2019/20 for 2020/21	-	(500)	-
In Year Savings 2020/21 for 2021/22	-	-	(500)
Savings Not Achieved	266	1,165	2,052
Additional Use of Reserves	(266)	(1,165)	0
Budget Deficit	0	0	2,052

Addendum: Impact on Non-Committed Reserves

	2019/20 £000	2020/21 £000	2021/22 £000
Opening balance of non –committed reserves (per table 4)	4,315	2,894	629
Net budgeted use of reserves (per table 4)	(1,155)	(1,100)	(650)
Additional use of reserves if savings <u>not</u> achieved	(266)	(1,165)	21
Total	2,894	629	0

63. As the table above illustrates, if lower savings are achieved, combined with reductions in funding, the only option left for the Council to balance the budget each year is to use additional reserves. Owing to the scale of the projected shortfall, however, the Council would exhaust all non-committed reserves in 2021/22 and still have a residual deficit to address of £2.052m. This position would also use in full the Council's genuine 'emergency' reserve (i.e. the Minimum Working Balance) and is not sustainable.
64. Hence, the Council must start to address this situation now as if it fails to do so it faces having to make drastic reductions in service with no time to plan for a managed transition to a lower cost base.

Next Steps

65. For Policy and Resources Committee's information, Table 10 below provides a forward outline timetable for the remainder of the current service and financial planning process:-

Table 10: Forward Timetable for the Development of the Budget 2019/20

Date	Action	Status
May 2018	Update of Medium Term Financial Plan to Policy and Resources Committee	Completed
Dec 2018	Refine Medium Term Financial Plan to 2021/22	Completed
Dec 2018	Policy and Resources Committee considers initial budget submission	This report
Dec 2018	Provisional Local Government Finance Settlement 2019/20	Awaited
Dec-Jan 2019	Development of draft Budget 2019/20 completed	In Progress
Jan 2019	Conclude local scheme of council tax support for 2019/20	
Jan / Feb 2019	Final Local Government Finance Settlement 2019/20	
12 th Feb 2019	Policy and Resources Committee recommends Budget and Council Tax to Council	
26 th Feb 2019	Council sets Budget and Council Tax for 2019/20	
Mar / Apr 2019	Service Plans completed and aligned with the approved budget	

IMPLICATIONS

Policy

66. The Council's General Fund Revenue Budget supports the delivery of services in pursuance of the strategic objectives set out in the Strategic Plan. The position reported for 2019/20 and the forward projections in the report represent a significant challenge to service provision in the longer term. There is a need, therefore, to put in place a strategic approach to future financial planning with a particular focus on a move to a more sustainable budget base over the medium term planning period. The Council will also need to review policies on the delivery of existing services to determine whether the existing policy direction is affordable within the resources available.

Financial

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

Legal

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

69. Section 25 of the Local Government Act 2003 also requires the Chief Financial Officer, as the officer having responsibility for the administration of the Council's financial affairs, to report to the Council on the robustness of the budget estimates and adequacy of financial reserves when determining its budget requirement under the LGFA 1992. This report will be submitted for consideration by the Council when it deliberates the budget submission from Policy and Resources Committee in February 2019.

Risk Management

70. In relation to the financial risks faced by the Council, there needs to be a balance between maintaining and improving key frontline service delivery and the sustainability of the financial standing of the Council.
71. The Medium Term Financial Plan currently indicates a significant deficit that is unsustainable. Even using reserves to smooth the effect of expected reductions in funding, still requires substantial budget savings to be made to maintain a balanced budget. Using reserves in excess of the amounts set out in the budget strategy proposed would, in the absence of an increase in Government funding, present a real risk to maintaining basic levels of service and require significant savings to be identified in later years of the plan period.
72. 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. As the 4 year period of the Comprehensive Spending Review 2015 comes to a close, the uncertainty about forthcoming CSR in 2019, the outcomes of the Fair Funding Review and lack of clarity on future funding levels presents a heightened risk to the Council's financial standing.
73. Whilst achieving a balanced budget for 2019/20 is considered achievable, it is the medium term financial position, from 2020/21, that presents the greatest risk to the financial sustainability of the Council. The absence of any definitive picture of funding for the Council post 2019/20 inhibits financial planning and will require the Council to develop plans on a range of scenarios, some of which are as set out in the report, early in the new year so that the Council is able to take early action as appropriate to deliver those plans.

Health and Safety

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

Sustainability

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

Community Safety

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

Equality and Diversity

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

APPENDICES

Appendix A - General Fund Summary: Revised Estimates 2018/19 and draft Base Budget 2019/20

Appendix B - Analysis of Change in Approved Budget 2018/19 to Revised Budget 2018/19

Appendix C - Analysis of Change in Budget Requirement 2019/20 Draft Estimate to 2018/19 (Approved)

Appendix D - Main Assumptions, Outstanding Matters and Potential Risk Issues

Appendix E - Forecast Amounts of Specific Reserves and Balances 2018/2022

Appendix F(1) - Potential Savings Proposal from Management Team 2019/22

Appendix F(2) - Supporting Narrative Pro-formas for Proposed Budget Savings Proposals 2019/22

Appendix G - Initial Screening of Budget Proposals for Equalities Impact 2019/20

LIST OF BACKGROUND PAPERS

Papers held in Financial Services