

**REPORT OF: MANAGEMENT TEAM**  
**TO: SPECIAL BUDGET POLICY AND RESOURCES COMMITTEE**  
**DATE: 12<sup>th</sup> FEBRUARY 2019**

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## **GENERAL FUND REVENUE BUDGET 2019/20**

### **PURPOSE OF REPORT**

1. The purpose of this report is to:-
  - a) inform the Policy and Resources Committee of the Local Government Finance Settlement (LGFS) for 2019/20 and the implications for the Council;
  - b) consider the proposed General Fund Revenue budget and other related matters for 2019/20;
  - c) enable the Policy and Resources Committee to make a recommendation to Council at its meeting on 26<sup>th</sup> February 2019 on the level of Council Tax to be set for the financial year 2019/20; and
  - d) provide details of the Council's Medium Term Financial Plan for the period 2019/20 to 2021/22 to highlight the significant budget deficit and the need to take further action to reduce expenditure to a sustainable level.

### **RECOMMENDATIONS**

2. The Policy and Resources Committee 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 the projected outturn position in the current financial year;
  - d) in relation to Pendle Leisure Trust, subject to consideration of the residual saving proposals for 2019/20, agree to provide a grant to the Trust of £1,208,020 in 2019/20;
  - e) make recommendations to the full Council on 26<sup>th</sup> February 2019 on the General Fund Budget Requirement for 2019/20 having regard to the recommended budget as set out in this report (and detailed at [Appendix I](#));

- f) subject to the Policy and Resources Committee's consideration of the budget proposals in this report, to recommend to Council on 26<sup>th</sup> February, a Band D council tax for 2019/20 of £265.34, being an increase of £7.70 (2.99%) on the current level of council tax;
- g) require each Service to operate within its budget for 2019/20 once approved, and that these budgets be cash limited and subject to regular monitoring and control;
- h) acknowledge the uncertainty attached to the current assumptions and financial modelling to 2021/22 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 during this period;
- i) 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 2020/21 to 2022/23;

## **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, and verbal update on the Provisional Local Government Finance Settlement for 2019/20, considered by the Policy and Resources Committee on 18<sup>th</sup> December 2018. The report and update explained the main issues in the current budget round, since then the Government has published details of the Final Local Government Finance Settlement for 2019/20.
- 6. This report includes the impact of the settlement and further development of the budget to propose a budget strategy for 2019/20 enabling the Policy and Resources Committee 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 on-going 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.
- 8. Previous budget reports have set out the level of uncertainty associated with any forward projections from 2020/21 in view of the Government's forthcoming Fair Funding Review and the move towards 75% local retention of business rates. This report amplifies that message particularly as 2019/20 is the last year of the 4 year settlement and from 2020/21 there is no information available to accurately forecast the Council's level of funding and therefore budget position going forward. More on these matters is included further in this report.

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

9. As indicated in the legal implications section below, Section 25 of the Local Government Act 2003 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 the adequacy of proposed financial reserves when determining its budget requirement under the Local Government Finance Act 1992.
10. A draft copy of the statement that will be reported to Council on 26<sup>th</sup> February is provided at [Appendix A](#) and the Policy and Resources Committee 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.
11. Given the ongoing reductions in core government funding, the absence of any funding certainty 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.
12. 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 2019/20

13. The provisional Local Government Finance Settlement (LGFS) was published after the December's Budget Report had been finalised, however a verbal update was presented to the Committee on 18<sup>th</sup> December 2018. The Policy and Resources Committee granted delegated authority to the report author in consultation with the Group Leader 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](#).
14. The final Local Government Finance Settlement was published on 29<sup>th</sup> January 2019 confirming the content of the provisional settlement received in December. Whilst the Council's share of Revenue Support Grant in 2019/20 is consistent with Government's 4-year funding offer, the Council received additional New Homes Bonus, potentially for a period of four years but not guaranteed, and a one off allocation from the National Business Rates Levy Account Surplus. The Lancashire Business Rates Retention (BRR) Pooling agreement also converted into a 75% BRR Pilot scheme a condition of which requires the Revenue Support Grant to be rolled into the BRR funding regime. Whilst additional monies were received for NHB and the Levy Account Surplus, the financial impact of the 75% BRR Pilot scheme is estimated to be cost neutral. More information on this is provided below.

## Funding Allocations 2019/20

15. On the basis of the Final Settlement, **Table 1** below summarises the funding for Pendle in 2019/20:

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

	<b>Actual Funding 2018/19 £000</b>	<b>Estimated Funding 2019/20 £000</b>	<b>Estimated Funding 2020/21 £000</b>	<b>Estimated Funding 2021/22 £000</b>
Estimated Business Rates	4,749	6,212	6,049	5,833
Add Revenue Support Grant	1,707	-	-	-
<b>Total</b>	<b>6,457</b>	<b>6,212</b>	<b>6,049</b>	<b>5,833</b>
less Council Tax Support Grant	(1,236)	(1,236)	(1,236)	(1,236)
less Homelessness Grant	(97)	(97)	(97)	(97)
<b>Formula Grant (Equivalent)</b>	<b>5,124</b>	<b>4,879</b>	<b>4,716</b>	<b>4,500</b>
Add New Homes Bonus	488	391	254	155
<b>Estimate of Funding</b>	<b>5,612</b>	<b>5,270</b>	<b>4,970</b>	<b>4,655</b>
<i>Cumulative Change since 2010</i>	<i>(64.61%)</i>	<i>(72.98%)</i>	<i>(75.25%)</i>	<i>(77.64%)</i>

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

	<b>Actual Funding 2018/19 £000</b>	<b>Estimated Funding 2019/20 £000</b>	<b>Estimated Funding 2020/21 £000</b>	<b>Estimated Funding 2021/22 £000</b>
Individual Authority Business Rates	7,064	9,630	9,630	9,630
Less Tariff	(3,260)	(5,125)	(5,288)	(5,504)
Sub - total	3,804	4,505	4,342	4,126
Compensation via Section 31 Grant *	985	1,787	1,787	1,787
Contribution to the Pool	(40)	(80)	(80)	(80)
<b>Estimate of Retained Business Rates</b>	<b>4,749</b>	<b>6,212</b>	<b>6,049</b>	<b>5,833</b>

*\*Section 31 Grant compensates for cost of Government policy decisions on business rates relief which suppresses our income*

16. The Retained Business Rates shown above for 2019/20 is derived from an assessment of the Council's share of the business rates collected (£9.630m). This is lower than the Government's assessment of the Council's share of business rates income (£10.277m) and reflects local knowledge of factors such as reliefs, exemptions and outstanding appeals.
17. As the table above indicates, it is currently estimated that the Council's funding, on a like for like basis, will fall from £5.612m in 2018/19 to £5.270m in 2019/20, a reduction of (6.1%) with further reductions projected each year of the medium term plan period.
18. It is only possible to estimate funding at this stage in each year. Whilst Revenue Support Grant was guaranteed in previous years, the estimate of retained business rates is not as this is dependent on the amount of business rates income for the year. This is affected by both 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.

## Comparison to Medium Term Financial Plan 2019/20

19. **Table 2** below provides a comparison of the updated funding for 2019/20 outlined above with the estimated amounts that were assumed in the Medium Term Financial Plan 2019/20 to 2021/22 (and as reported to the Policy and Resources Committee in December 2018):

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

	<b>Funding 2019/20 £000</b>	<b>Funding 2020/21 £000</b>	<b>Funding 2021/22 £000</b>
Total Funding (See Table 1 above)	5,270	4,970	4,655
Medium Term Financial Plan (December 2018)	5,128	4,828	4,513
<b>Change in Funding Estimate</b>	<b>142</b>	<b>142</b>	<b>142</b>

<b><u>Analysis of Change:</u></b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Revenue Support Grant – now in BRR	(1,145)	(900)	(600)
Retained Business Rates – incl. RSG	1,145	900	600
New Homes Bonus	142	142	142
<b>Total of Changes</b>	<b>142</b>	<b>142</b>	<b>142</b>

20. The movement between Revenue Support Grant and Business Rates and the increase in NHB is covered below.

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

21. The NHB regime was subjected to major changes by Government which took effect from 2017/18. The key changes were the introduction of a baseline threshold 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. These two changes had a significant effect on the amount of NHB receivable.
22. The baseline threshold referred to above was set by Government at 0.4% of dwellings and in Pendle's case this meant that growth in dwellings needed to exceed 123 before grant was awarded for 2018/19. Although growth was achieved in the number of new dwellings (that is, an increase of 108) this was offset by an increase in the number of empty properties by 44, therefore the amount of NHB received was £13k. A calculation last year showed that Pendle's NHB grant entitlement was reduced by £0.503m in total over the 6 year period from 2018/19.
23. The final Local Government Finance Settlement (LGFS) kept the parameters for NHB the same for 2019/20, however, dedicated work to reduce the number of empty properties resulted in the number of housing units increasing by 265 between October 2017 and October 2018, equating to growth of 224 Band D equivalents. When compared against the 0.4% baseline of 124, this qualified Pendle to receive NHB of £142k in 2019/20. This additional funding has been factored into the MTFP (as per table 2 above).
24. Although this is a positive result, under the pre-2017 scheme (with no baseline and an allocation period spanning 6 years) Pendle would have received total NHB funding of £1.8m, however, under the current scheme total income of £0.566m will be received. Added to the calculation for 2018/19 the changes to NHB funding has reduced Pendle's ability to generate income through increasing housing units by a total of £1.738m.

25. NHB is temporary in nature and currently under review, therefore it is uncertain if NHB will continue after 2019/20 or if it will be replaced by another housing incentivisation scheme.
26. **Table 3** below shows the forward projections of receipts of NHB in the MTFP and beyond.

**Table 3: New Homes Bonus to 2023/24**

	NHB 2019/20 £000	NHB 2020/21 £000	NHB 2021/22 £000	NHB 2022/23 £000	NHB 2023/24 £000
2016/17	137				
2017/18	100	100			
2018/19	13	13	13		
2019/20	142	142	142	142	
<b>Total</b>	<b>392</b>	<b>255</b>	<b>155</b>	<b>142</b>	<b>-</b>

### Business Rates (NNDR)

27. The Council has to estimate the level of business rates income each year. For 2019/20 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;
  - changes to thresholds for small business rate reliefs, and the introduction of various policy reliefs by Government (e.g. extension of Retail Relief, Discretionary Relief, Supporting Small Businesses Relief).
28. 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 (£3.705m).
29. The Lancashire Pooling agreement, whereby a number District Councils and the County Council joined together to retain more Business Rates by not paying over a levy payment to Central Government on growth income, has been converted into a BRR 75% Pilot scheme. This has enabled more Lancashire authorities to join the pooling arrangements (such as the two other unitary authorities Blackburn with Darwen and Blackpool) therefore increasing the amount of Business Rates collected in Lancashire retained locally.
30. The Pilot schemes 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.
31. Our rating submission for 2019/20, as made to Government at the end of January, estimates our net retained income in next year will be £6.212m inclusive of Section 31 grant monies and net of the tariff (see addendum to Table 1 above). Section 31 grants represent compensation payments to reimburse the Council for business rates income foregone as a result of government policy decisions on business rate reliefs.

32. The amount of Section 31 grant now expected for 2019/20 greatly exceeds that originally assumed in the MTFP. This is due, in the main, to the following:-
- changes to reliefs, for example, the expansion of Retail Relief to businesses with a Rateable Value up to £51k which therefore increases entitlement to the compensating s31 grant; and
  - the transfer to a 75% Pilot scheme meaning our share of the s31 grant awarded is greater.
33. Our latest projections for BRR income in 2019/20 also expect the impact of converting to a 75% Pilot scheme will be cost neutral, however due to this transition RSG is now rolled into BRR and no longer included in the MTFP as a stand-alone grant. This is illustrated in **Table 1** above.

### **Forecast General Fund Out-turn 2018/19**

34. At the meeting of the Policy and Resources Committee on 18<sup>th</sup> December 2018, Councillors approved the Revised Budget for 2018/19. At that time, it was estimated that the out-turn position on the General Fund Revenue Budget would be £167k less than the approved budget for the year reducing the call on the Budget Support Reserves from £0.656m to £0.486m
35. Monitoring of the Council's revised budget will continue with any variations to the estimated year-end position being reported to the Policy and Resources Committee in March as part of the Strategic Monitoring reports.

### **Development of the Base Budget for 2019/20**

36. As outlined in the report to the Policy and Resources Committee on 18<sup>th</sup> December 2018, the Base Budget for 2019/20 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 2019/20 (and future years) as set out in **Appendix D**. The latest position is now shown in **Table 4** below. As explained in paragraph 32, increases in reliefs awarded to rate payers have reduced our core funding derived from BRR collection. This is offset by an increase in s31 grant which compensates us for the loss of income.
38. Increases in the total value of reliefs awarded to rate payers, reduces the amount of BRR collected. The Council is compensated for this loss of income through the receipt of s31 grant. The total amount of reliefs awarded in 2019/20 is estimated to increase, primarily due to retail relief, and therefore the amount of s31 grant is also expected to increase. The impact of this on the Business Rates and s31 Grant budgets previously reported is not insignificant but does net off to zero as illustrated in Table 4 below and in **Appendix D**.

39. **Table 4: Revised Net Expenditure 2019/20 (and Forecast to 2021/22)**

	<b>Base Budget 2019/20 £000</b>	<b>Forecast 2020/21 £000</b>	<b>Forecast 2021/22 £000</b>
Net Expenditure as at 18th December 2018 *	14,062	14,959	15,915
Adjusted Corporate Income & Expenditure for BRR	(778)	(778)	(778)
<b>Adjusted Net Expenditure for BRR</b>	<b>13,284</b>	<b>14,181</b>	<b>15,137</b>
'Firming Up' Adjustments ( <a href="#">Appendix D</a> )	(160)	(74)	(65)
Savings Implemented ( <a href="#">Appendix D</a> )	-	-	-
<b>Revised Net Expenditure</b>	<b>13,124</b>	<b>14,107</b>	<b>15,072</b>

<b>Impact on MTFP from 18/12/19</b>			
Adjusted Corporate Income & Expenditure for BRR	(778)	(778)	(778)
Reduction in Core Funding from BRR	778	778	778
<b>Net impact on MTFP of BRR adjustment</b>	<b>-</b>	<b>-</b>	<b>-</b>

\*1 – This excludes the use of reserves.

**The Financial Strategy 2019/20 to 2021/22**

40. The local government finance settlement for 2019/20 represents the final year 4 of the government's four-year funding offer. The Council previously accepted the offer and submitted the requisite Efficiency Plan. The plan is accessible via the Council's website [here](#).
41. As a consequence of accepting the 4 year offer the MTFP, recent years budget reports and MTFPs have contained some certainty, although limited, when forecasting levels of funding (outwith the volatility exposure inherent in the BRR regime). This budget report is different in that beyond 2019/20 there is no accurate information available on which to base budget forecasts on and so present any certainty on the levels of budget shortfalls in future years.
42. **Table 1** above shows how funding has reduced and it is a reasonable assumption to assume that funding will continue to reduce over the period of the MTFP. In any case, the budget deficit position forecast in the MTFP include significant and unsustainable contributions from reserves so even in the event of reduction to funding being less than anticipated, the need to reduce net expenditure to an affordable level remains.
43. The urgency of the matter is that the estimated budget deficit for 2020/21 is £1.305m, assuming both the level of savings needed to balance the budget for 2019/20 are approved and a contribution of £1.060m is made from reserves.
44. This position is also predicated on the fact that such a sizable contribution from reserves is affordable. The forecast reduction in overall reserves is included in [Appendix H](#) which plots the reduction in non-committed reserves from £2.089m at the close of 2019/20 to £0.358m in 2021/22, a reduction of 83% in a two year period.



45. In addition to the above, other factors that influence the budget may also adversely impact on the estimated budget shortfall namely changes to key budget assumptions such a growth in the tax bases for both Council Tax and BRR yields. The reductions in NHB are also significant as detailed in paragraph 24 above.
46. Certainty around future levels of funding will only be known in the Autumn of 2019 at the earliest, however as discussed above, a programme of identifying budget savings will need to have been commenced in advance of knowing the Council's funding position for 2020/21 onwards.
47. The level of funding Pendle will receive in future years will be determined by the Fair Funding Review and the new revised Business Rates Retention scheme. Both of these reviews are currently out for consultation, the responses to which appear elsewhere on this agenda, and due to conclude in 2019 in order for authorities to be informed of their funding levels in the Provisional Local Government Finance Settlement (PLGFS) 2020/21. The usual publication date for the is late December which is the time that savings aimed at balancing the budget for 2020/21 should be ready for approval and immediate implementation. The consultation for both closes on the 21<sup>st</sup> February 2019.
48. To emphasise the key message of the Medium Financial Strategy for 2019/20, we are in effect dealing with only one year under current funding arrangements for 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 from the position currently reflected in our MTFP.
49. To put this into some context, **Table 5** below summarises the updated Medium Term Financial Plan for 2019/20 to 2021/22. 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 5: Medium Term Financial Plan 2019/20 to 2021/22**

	<b>Base Budget 2019/20 £000</b>	<b>Forecast 2020/21 £000</b>	<b>Forecast 2021/22 £000</b>
<b>Net Expenditure - see table 4 above</b>	<b>13,124</b>	<b>14,107</b>	<b>15,072</b>
<b>Less:</b>			
Revenue Support Grant (now included in BRR)	-	-	-
Retained Business Rates (addendum to Table 1)	4,505	4,342	4,127
Retained Business Rates - Collection Fund Surplus	400	150	150
Council Tax Income	6,384	6,625	6,874
Council Tax Income - Collection Fund Surplus	375	150	100
<b>Total Estimated Funding</b>	<b>11,664</b>	<b>11,267</b>	<b>11,250</b>
<b>Funding Shortfall (before use of reserves)</b>	<b>(1,460)</b>	<b>(2,840)</b>	<b>(3,822)</b>
Estimated Tax Base	24,061.3	24,241.76	24,423.57
Estimated Council Tax (Band D)	265.34	273.27	281.44
<b>% Council Tax Increase Assumption</b>	<b>2.99%</b>	<b>2.99%</b>	<b>2.99%</b>

*Band D Council Tax in the current year is £257.64*

50. **Table 5** above outlines a growing budget deficit such that by 2021/22, the Council's on-going funding will be £11.250m compared with estimated net expenditure of £15.072m – a deficit of £3.822m (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 the implications for Pendle of the proposed reform of local government finance are not known).
51. 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.
52. **Appendix H** provides details of all Reserves and Balances to 2021/22, notably the total General Fund Specific Reserves are budgeted to reduce by £1.885m being 44% assuming that there are no significant calls made on them over the remaining MTFP period. Most of this reduction is attributable to the use of non-committed reserves to support the budget which reduce by £1.730m being 83% in a two year period.
53. The most immediate issue is the budget deficit in 2019/20. 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 which is exacerbated by the uncertainty surround our core funding which is just one year away.

### **Budget Savings, Charges and Growth Proposals 2019/20**

54. The Policy and Resources Committee 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 (September and December) with all confirmed proposals now built in to the draft budget for 2019/20 and reflected in the MTFP figures shown in **Tables 5 and 6**. There remains, however, a requirement to identify further savings of £0.384m to ensure a balance budget is achieved for next year.
55. In an effort to bridge this savings 'gap' the remaining options, plus additional proposals, for savings are put forward by Management Team, a list of suggested savings is provided at **Appendix E**. These total £384k in 2019/20 with 'indicative' proposals also listed for the remainder of the current medium term financial plan period.
56. A narrative supporting each of the savings proposals is provided at **Appendix F (i)**. The proposed Base Budget for 2019/20 contains no provision for budget growth.
57. Budget savings have been proactively identified and worked up into deliverable proposals throughout the year in order to be able to balance the budget from 1<sup>st</sup> April.

### **Pendle Leisure Trust – Grant 2019/20**

58. In the current year the Pendle Leisure Trust will receive a management fee from the Council of £1.315m. 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 2019/20 of at least £200k.

59. From a Trust perspective, they already face a projected deficit on their budget in 2019/20 of £201k. Combining the impact of inflation with offsetting the budget deficit and delivering a saving of £200k, to enable the Council to reduce its management fee, the Trust needs to identify gross total savings of £308k.
60. A report setting out the Trust's initial proposals for savings was considered by the Policy and Resources Committee in October 2018 where it was resolved:-
- (1) That the initial proposals from the Pendle Leisure Trust, as provided at Appendix A to the report be noted and these be considered in the development of the Management Team's proposed budget for 2019/20;
  - (2) That the Chief Executive be granted delegated authority to explore alternative options for the continued operation of the ACE Centre
61. A further update on the savings proposals from the Pendle Leisure Trust was provided to Councillors at the meeting of the Policy and Resources Committee on 18<sup>th</sup> December 2018.
62. Since then, further discussions have taken place with the Trust to refine their savings proposals. In particular, acknowledging the resolution of the Policy and Resources Committee in October 2018 to grant the Chief Executive delegated authority to explore alternative options for the continued operation of the ACE Centre, the Trust has brought forward additional options in relation to this facility.
63. Taking these additional options into consideration, the revised list of savings proposals developed by the Trust is presented at [Appendix F\(ii\)](#). Councillors will appreciate that the proposals are not mutually exclusive and, as a consequence, Management Team has proposed the savings as set out in the Appendix. If these proposals as now submitted by the Trust and which form part of the Management Team's budget submission are agreed, the management fee payable by the Council to the Trust in 2019/20 will reduce by £107k from £1.315m to £1.208m.

## **Council Tax 2019/20**

64. From a financial planning perspective the assumption on Council Tax for 2019/20 has remained unchanged from that reported to the Policy and Resources Committee in December. The settlement confirmed that the Council Tax Referendum Principles would remain the same as in 2018/19 that is for District Councils an increase in council tax would be deemed excessive if it is 3% or above. This means that the budget assumption of a 2.99% increase in 2019/20 remains valid.
65. As a result of this the MTFP continues to assume Council Tax will increase by 2.99%, giving rise to a Band D charge of £265.34, an increase of £7.70 compared to the charge in the current year of £257.64. Over 60% of our dwellings are in Band A for which the equivalent increase would be £5.13 giving rise to a Band A charge of £176.88, up from £171.75 in this year.
66. If this increase is not agreed then the Council will have to identify and implement additional savings for equivalent amounts. If Councillors were minded to approve no increase in council tax for 2019/20, then the loss of assumed income from council tax would be £185k for next year in isolation and £0.572m cumulatively over the plan period increasing the level of savings required by equivalent amounts.

67. 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 2019/20 when it meets on 26<sup>th</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.
68. Given the financial position facing the Council, Management Team's recommendation is that the Council should increase council tax for 2019/20 by the maximum permitted i.e. 2.99% (an increase of £7.70). If agreed, this would result in a Band D charge for Pendle Council services only of £265.34. An increase of £7.70 equates to c14p per week for Band D Properties (for Band A properties, it would be £5.13 or c9p per week).
69. The Policy and Resources Committee 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.
70. 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 26<sup>th</sup> February.

## **Reserves and Balances**

71. 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 apart from an adjustment to the use of the Budget Support Reserve (BSR). The position proposed following the final settlement, is:
  - a total of £2.624m will be used from the BSR over the 3 year Plan period to 2021/22. This has reduced by £0.186m from the amount reported in December primarily due to the sums received in the settlement for New Homes Bonus and the Levy Surplus Account. In December, the amount budgeted to be used from the BSR in 2019/20 was £1.1m, this has been reduced to £0.914m. If this scenario is confirmed then the projected balance left on the reserve at 31/03/22 is £0.194m;
  - 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 £337k of such reserves in the period 2019/20 to 2021/22, and
  - the Minimum Working Balance will remain at £1.0m for 2019/20 and be subject to review on at least an annual basis to assess the adequacy of this (as with all other reserves).

## **Draft Budget for 2019/20 - Management Team Recommendation**

72. 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 2019/20 totalling £384,090.

73. This, combined with the proposed increase in Council Tax and using £914,380 from reserves, forms the basis of the Management Team budget proposal which is summarised below and shown in detail at [Appendix I](#):

**Table 6: Management Team - Recommended Budget 2019/20**

	Base Budget 2019/20 £000
Revised Net Expenditure 2019/20 - see table 4 above	13,124
Recommended Savings (see <a href="#">Appendix E</a> )	(384)
<b>Net Revenue Expenditure</b>	<b>12,740</b>
Use of Reserves (see <a href="#">Appendix H</a> )	(1,076)
Collection Funds - share of Council Tax & BRR surplus	(775)
Estimate of Retained Business Rates - see table 5	(4,505)
<b>Recommended Council Tax Requirement</b>	<b>6,384</b>

#### Updated Medium Term Financial Plan 2019/20 to 2021/22

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

**Table 7: Medium Term Financial Plan 2019/20 to 2021/22  
(assuming Management Team's Budget)**

	Management Team Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000
Funding Shortfall (see table 5)	1,460	2,840	3,822
Estimated Use of Reserves (Appendix H)	(1,076)	(1,151)	(734)
Previous Year's savings	-	(383)	(1,689)
<b>In Year Savings Proposed/Required</b>	<b>384</b>	<b>1,305</b>	<b>1,399</b>

75. As the table indicates, the budget in 2019/20 will be balanced assuming the savings proposed of £384k are agreed. However, there remains a significant budget deficit in each of the following 2 years **with further cumulative savings of £2.7m required**. The implications of this are considered in more detail below.

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

74. The Policy and Resources Committee 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, however, the shortfall can only be made up from finite reserves, noting that the Budget Support Reserves reduces to just £0.194m at the end of this MTFP if all of the remaining savings target of £384k is approved in advance of the next financial year.

75. Any less recurrent savings pushes the balance of savings required on to the next year and will exhaust the available balance of non-committed reserves quicker than planned. Given the increasing degree of uncertainty within the MTFP after 2019/20 this approach is a high risk strategy.
76. This is illustrated in Table 8 below which sets out a scenario under which savings of only £190k are agreed for 2019/20 with further savings of £0.850m in 2021/22. This would result in an additional £1.040m being needed from the Budget Support Reserve. In the MTFP £0.650m is required from the budget support reserve in 2021/22. If savings of only circa. £1.0m are made in the preceding two years the balance on the budget support reserve would be zero. This would add £649k to the existing savings target for that year of £1.399m, totaling £2.048m required to balance the budget. Adding also the planned contribution from the BSR of £0.650m, the total savings required would be £2.698m.
77. As per the commentary earlier in this report, this scenario is assuming that the budget forecasts are reasonable, this cannot be guaranteed as 2019/20 is the last year when funding levels have been known with any certainty, ignoring the volatile nature of BRR income.

**Table 8: 'What if' scenario re achievement of lower savings in 2019/20 & 2020/21**

	<b>Base Budget 2019/20 £000</b>	<b>Forecast 2020/21 £000</b>	<b>Forecast 2021/22 £000</b>
Savings Not Achieved b/fwd	-	194	649
Minimum Level of Savings Required (See table 7)	384	1,305	1,399
<b>Balance of Savings Required</b>	<b>384</b>	<b>1,499</b>	<b>2,048</b>
In Year Savings 2019/20	(190)	-	-
In Year Savings 2020/21	-	(850)	-
In Year Savings 2021/22	-	-	-
<b>Savings Not Achieved</b>	<b>194</b>	<b>649</b>	<b>2,048</b>
(Additional Use of Reserves)/Shortfall in Reserves	(194)	(649)	650
<b>Budget Deficit</b>	<b>0</b>	<b>0</b>	<b>2,698</b>

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

	<b>Base Budget 2019/20 £000</b>	<b>Forecast 2020/21 £000</b>	<b>Forecast 2021/22 £000</b>
Opening Balance of BSR (per <a href="#">Appendix H</a> )	2,818	1,904	844
Updated Opening Balance after deduction of additional contribution		1,710	1
BSR - budgeted use in MTFP	(914)	(1,060)	(650)
<b>Closing Balance</b>	<b>1,904</b>	<b>650</b>	<b>n/a</b>
Additional Use of Reserves	(194)	(649)	
<b>Updated Closing Balance</b>	<b>1,710</b>	<b>1</b>	

78. 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 no balance left in the Budget Support Reserve leaving a residual deficit of £2.7m.
79. 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 by reducing costs by **SAVING** and/or **STOPPING** and increasing income by **GROWING** and/or **CHARGING**. 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 2021/22**

80. The Council has made significant savings since 2010. On staffing, the Council has reduced its headcount from 400 in 2010 to 235 in 2019. Taking account of decisions made when setting the budget for the current year, combined savings in excess of £8.530m have been made since 2010/11. Thus far, in respect of next year, the Council has already agreed further savings of £0.531m.
81. Whilst this represents a significant achievement it is clear from our financial projections that more has to be done. Given the savings made to-date, however, there is decreasing scope to generate more from the ongoing, attritional reduction in services.
82. 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.
83. In addition, however, 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.
84. As indicated above in table 8, the level of savings required over the next 3 years is £3.1m. If the budget proposed by Management Team for 2019/20 is implemented in full the residual savings required are estimated at £2.7m 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.
85. The Policy and Resources Committee 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 2019/20 onwards were reported to the Policy and Resources Committee in December 2018. The Management Team proposed savings are shown at **Appendix E**.
86. 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 despite the lack of information available.

87. Forecasts after 2019/20 will be very difficult to assess but the requirement for financial planning becomes ever more important as the level of uncertainty is increasing during the next plan period. After 2019/20 the funding arrangements may be markedly different from the position currently reflected in the MTFP. ***Councillors are asked to acknowledge this position accepting that further updates will be presented in due course as more information becomes available.***

### **Capital Programme 2019/20**

88. A report elsewhere on the Agenda for this meeting provides more details of the proposed Capital Programme for 2019/20. The financial implications of the proposed programme that are funded from the revenue budget, have been included in the budget estimates within this report.

### **Estimated Collection Fund Surplus 2018/19**

89. The Collection Fund Accounts are 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 Crime Commissioner and Fire and Rescue Service).
90. The projected year end position on the Collection Fund in respect of council tax is an estimated surplus of £2.1m, this has been factored in to the budget submission for 2019/20.
91. The projected year end position in respect of Business Rates is an estimated surplus of £1.0mk has been estimated and this will be distributed during 2019/20 with Pendle's share at 40% being £400k. This has also been factored in to the Council's budget requirement for next year.

### **Council Tax Base 2019/20**

92. The Council Tax Base has been calculated in accordance with the relevant regulations at 24,061.3 Band D equivalent dwellings and was approved by the Policy and Resources Committee at its meeting on 18<sup>th</sup> December 2018.

### **Group Proposals**

93. At this meeting, the Policy and Resources Committee is requested to make recommendations to the Council on the Council Tax to be levied, the General Fund Revenue Budget Requirement and the Capital Programme.
94. Each Group also has the opportunity to present alternative budget proposals for consideration by Council.
95. Groups are requested, however, to note the statutory obligation of the Chief Financial Officer 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 26<sup>th</sup> February 2019.



## **Budget Consultation**

96. The following activities have been undertaken to raise awareness and seek feedback on the Council's budget. These include:-

- Periodic information to staff; participation in relation to Organisational Review;
- Reports to each of the Area Committees 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.
- Information has been sent to the East Lancashire Chamber of Commerce based on the reports presented to the Policy and Resources Committee in December.

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

97. 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 26<sup>th</sup> February when Council will be asked to approve the budget and council tax for Pendle.

98. Details of Town and Parish Council Precepts for 2019/20 have been requested by 4<sup>th</sup> February and a summary listing of those submitted at the time of writing this report is provided in [Appendix K](#).

99. 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 26<sup>th</sup> February.

## **IMPLICATIONS**

### **Policy**

100. The Council's General Fund Revenue Budget supports the delivery of services in pursuance of the strategic objectives set out in the Strategic Plan.

101. The position reported for 2019/20 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 2019/20 is balanced, albeit with the use of a contribution from reserves of £0.914m, 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 recommendations within 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 the recommendations within this report.

## **Community Safety**

109. There are no community safety issues arising directly from the recommendations within this report.

## **Equality and Diversity**

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

## **APPENDICES**

Appendix A	Draft Statement on the Robustness of Estimates and Adequacy of the Council's Reserves and Balances from the Chief Financial Officer
Appendix B	Review of the Council's Minimum Working Balance
Appendix C	Response to Consultation on the Local Government Finance Settlement 2019/20
Appendix D	'Firming Up' Adjustments
Appendix E	Revenue Budget Savings Proposals – Summary 2019/20 to 2021/22
Appendix F (i)	Narrative Supporting Revenue Budget Savings Proposals 2019/20
Appendix F (ii)	General Fund Revenue Budget 2019/20 – Pendle Leisure Trust – Outline Options
Appendix G	Council Tax Exemptions
Appendix H	Reserves and Balances
Appendix I	General Fund Revenue Budget 2019/20 – Management Team Recommendations
Appendix J	Responses to Area Committee Consultation
Appendix K	Town and Parish Council Precepts 2019/20

## **LIST OF BACKGROUND PAPERS**

First Budget Report – Presented to the Policy and Resources Committee on 18<sup>th</sup> December 2018  
Final Local Government Finance Settlement 2019/20