

**REPORT OF:** CHIEF FINANCE OFFICER  
**TO:** POLICY AND RESOURCES COMMITTEE  
**DATE:** 28<sup>th</sup> MAY 2019

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**FINANCIAL STRATEGY  
UPDATE OF THE MEDIUM TERM FINANCIAL PLAN 2020/21 to 2022/23**

**PURPOSE OF REPORT**

1. The purpose of this report is to provide the Committee with an update on the Council's Financial Strategy and Medium Term Financial Plan (MFTP) 2020/21 to 2022/23 and to set out a draft Budget Strategy for the period.

**RECOMMENDATIONS**

2. The Committee is recommended to:
  - a) note the uncertainty associated with our core funding beyond 2019/20 as explained in the report and in particular the increased uncertainty regarding the timing and implications of the Spending Review, Fair Funding Review and the move to 75% (formerly 100%) local retention of business rates income;
  - b) note the proposed Financial Strategy for 2020/21 to 2022/23 (and the supporting Medium Term Financial Plan 2020/21 to 2022/23 as shown at **Appendix B**) as set out in the report and in doing so the strategy for the use of Balances and Reserves over the same period;
  - c) agree to further reports throughout the year in order to assist with the development of budget proposals to reduce the Council's net expenditure by £1.251m as part of the budget process for 2020/21;
  - d) in addition to (c) above, agree that further work also be undertaken to develop options to address the balance of the projected budget deficit to 2022/23 with the outcomes reported to this Committee as part of the budget process for the current year.

- e) establish a cross-party Budget Working Group and request that it:
  - i) develops charging and savings proposals to reduce the Council's net expenditure by £1.251m for consideration in the development of the budget for 2020/21;
  - ii) identifies further charging and savings options to deal with the balance of the budget deficit to 2022/23.

## REASONS FOR RECOMMENDATION

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

## ISSUE

### Background

- 4. Councillors are aware of the significant funding reductions in local government, notably since 2010. The current financial year (2019/20) is the final year of the Government's 4-year funding offer to local authorities which this Council accepted during 2016/17. The level of core funding from Government beyond 2019/20 is uncertain and there is limited information on which to base future funding estimates on.
- 5. Along with the end of the 4-year funding agreement, the uncertainty with funding is a consequence of the following key matters, all of which may have a significant impact on the Council's future funding:-

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

Historically, Local Government has not fared well in successive Spending Reviews, suffering some of the deepest funding reductions of any Government Department since 2010. There is no evidence to suggest that the Spending Review 2019 will be any different. Already, the NHS has been 'promised' an additional £20bn, there is growing demand from Schools for additional funding (and historically, Schools funding has been protected), a(nother) Defence Review is underway with calls for additional investment, there is pressure to address the impact of climate change and the Police Service continues to lobby for more resources in the face of rising crime. Added to this, there is potential financial impact of BREXIT once, and if, that is concluded. Considering Local Government in this context, inevitably it will be a challenging Spending Review.

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

Whilst there are a number of issues arising from the Fair Funding Review for the Council, not least the Government's proposal not to take any account of deprivation in the funding formulae for District Councils, this is potentially overshadowed by the pressure to provide more funding for Social Care services. To achieve this, and assuming no new funding is included in Local Government's funding settlement, will inevitably mean funding directed toward Upper Tier Councils at the expense of Councils like Pendle.

- **75% Business Rates Retention system (BRR)** – the first major update to the current scheme, established on 1<sup>st</sup> April 2013, which allowed for 50% local retention of business rates income. The design of the new system has yet to be confirmed. Government are current piloting a number of 75% and 100% pooling arrangements and the Council is currently a member of the Lancashire 75% Pilot Pooling agreement which came into effect on 01/04/2019.

In relation to this matter, an emerging key issue for the Council to consider is the potential change in the shares of business rates retained by each class of local authority. Currently, Pendle retains 56% of business rates raised (with the County Council retaining 17.5%, Fire Authority 1.5% and the Government 25%). There is some suggestion that County Council shares should increase.

6. The Spending Review is expected to take place around October 2019 but, given the current impasse with BREXIT and the likelihood for this to continue dominating the Government's policy agenda, it may be delayed beyond that. Following late announcements on previous Local Government Finance Settlements (LGFS), the Government has committed to announcing the provisional LGFS in early December. For this to happen, both the Fair Funding Review and the changes to the Business Rate Retention System will have to be substantially complete bar a final consultation on proposals which, inevitably, will for part of the provisional LGFS.
7. In any event, each of the above will impact to varying degrees on the level of funding the Council will receive from 2020/21. **The Committee is asked to acknowledge this and accept that the position is very likely to differ from that presented in this report.**
8. It is in this context, that the report provides an update to the Financial Strategy and Medium Term Financial Plan for the period 2020/21 to 2022/23 as well as highlighting those matters that the Committee should consider as it looks to formulate a Budget Strategy for the next financial year and over the medium term.

### ***Review of Budget Strategy for 2019/20***

9. The extent to which the budget strategy for the current year varied from the final approved budget for the year has a bearing on the starting position for this update of the MTFP. A comparison is provided in Table 1 below and provides some context for the Council's medium term financial position set out further in this report:-

**Table 1: Review of Budget Strategy 2019/20**

Strategy Area	Proposed	Agreed	Financial Impact £000
Council Tax	Increase in Council Tax of £7.70 (2.99%)	Increase of £7.70 (2.99%)	NIL
Budget Growth	No Growth	No Growth	NIL
Budget Savings	Savings of £0.384m**	Savings of £0.217m	+167
<b>Net Impact</b>			<b>+167</b>
Use of Reserves	Use of Reserves £0.914m	Use of Reserves £1.082m	(167)
<b>Balanced Budget</b>			<b>-</b>

*\*\* residual savings requirement as reported to Council on 26/2/19 (savings of £531k had already been approved in advance of Budget Council).*

10. As Table 1 indicates, in comparison to the proposed budget strategy, the decisions taken to agree the final budget for 2019/20 resulted in a budgeted increase in costs of £0.167m which was met by an increase in the use of reserves.
11. Reserves are a finite resource and cannot be relied on to meet the ongoing cost burden of these decisions indefinitely. Given the projected trajectory for core funding this issue must be addressed by permanent reductions in net expenditure over the medium term as the level of reserves decline. It is important to note that the forecasted reducing balance on the Budget Support Reserve means that there is limited capacity to provide any contribution to balance the budget after 2021/22.

### ***Funding Outlook 2020/21 to 2022/23***

#### ***Funding Estimates included in the MTFP as at May 2019***

12. The Council's core funding from Government going forward is expected to consist of Retained Business Rates only. Revenue Support Grant was rolled into the Business Rates system as a condition of the 75% Pilot pooling agreement for 2019/20 and is not, according to the Government, expected to feature at all in the future funding regime.
13. There appears also to be a strong possibility that the New Homes Bonus Scheme may also be withdrawn as a source of funding under the new funding regime, although the Government has yet to give an absolute confirmation of this. With this, it is also unclear whether the residual grant awarded in previous years (for a 4 year period) will be paid. This is considered in more detail below.
14. As has been said in previous updates on the Council's financial position, to develop the conditions locally in which to grow funding streams such as business rates takes time. The challenge is the extent to which the Council can influence the conditions required for growth in our tax base so as to deliver additional income within the plan period.

15. Subject to the caveats outlined above the projected funding allocations for the Council from 2020/21 are as shown in the table below:

**Table 2: Forecast of core government funding to 2022/23**

Year	Revenue Support Grant	Levy Account Surplus	New Homes Bonus	Sub-total	Estimated share of NNDR	Total Core Funding	Change %	
	£000	£000	£000	£000	£000	£000	Annual	Cumul.
2019/20	Rolled into BRR	62	391	453	4,505	4,958		
2020/21		-	254	254	4,312	4,567	(7.9%)	(7.9%)
2021/22		-	155	155	4,124	4,279	(6.3%)	(13.7%)
2022/23		-	142	142	3,939	4,081	(4.6%)	(17.7%)

16. As the Table indicates, it is estimated on current projections that the Council's core funding will have reduced from £5.0m in 2019/20 to £4.1m by 2022/23, a cumulative reduction of £0.9m or 18% over the period shown above.

*Business Rates – move to 75% local retention – Pilot Pool Agreement 2019/20*

17. Looking ahead, Retained Business Rates is expected to form the bulk of the core Government funding for the Council. As set out above, the Government's current aim is for Councils to retain at least 75% of business rates from 2020/21. The current business rate regime for this Council, given its participation in the Lancashire Pilot Pooling arrangement, shares income on the basis of 25% retained centrally (government) with 75% retained locally (District Council 56%, County Council 17.5% and Fire Authority 1.5%). It should be noted that the current Pilot Pooling arrangement is for 2019/20 only but, as set out above, the principle of moving to 75% business rate retention from 2020/21 is stated Government policy.
18. The intention behind gradually changing the business rate retention scheme where local authorities retain more funding is to move from the current model of grant funding allocations and end payment of revenue support grant to local authorities. Instead the model will be that authorities become more financially self-sufficient whereby local services are funded from local resources. Moving to such a model has implications for the Council and adds even greater emphasis to the importance of taking action to stimulate and grow the local economy and housing market to grow our tax base (both for council tax and business rates) to help sustain funding for services.
19. As has been stressed earlier, at this time the level of core Government funding available to the Council from 2020/21 onwards is uncertain. Both the Fair Funding Review and the move to 75% rates retention could have significant financial implications for this Council but at this time they cannot be reliably assessed. The design of the revised rates retention system is not yet confirmed and various work programmes are in progress looking at key aspects of the scheme.

20. The assumption within the MTFP is necessarily cautious insofar as, given the experience of unprecedented funding reductions since 2010, it is anticipated that the outcome of these changes is likely to continue the downward trend in core funding. However, as ever, the underlying assumptions for these estimates of funding will continue to be kept under review as more information become available.

New Homes Bonus (NHB) Allocations

21. The Council will receive a NHB allocation of £391k in 2019/20 consisting of £142k plus legacy payments for periods prior to October 2018 of £136k, £100k and £13k (£13k being the affordable homes premium for additional units of affordable housing in the period between October 2017 and October 2018).
22. The current year is the third year of the revised NHB regime following a consultation by Government during 2016. This resulted in two significant changes to the payment of NHB, namely to pay it over a 4 rather than 6 year period and to only pay it on units of additional housing above a specified threshold – on inception of the new scheme this was set nationally at 0.4% of the number of Band D equivalent dwellings (c124 dwellings in this year for Pendle) and remained unchanged for the current year.
23. There were no changes made to either the 4 year allocation or the unit threshold for 2019/20. This, together with a project to reduce the number of Empty Homes and an increase in affordable homes, resulted in the Council being awarded £142k. The MTFP assumes the following amounts of NHB:

**Table 3: Assumed NHB in the 2020/21 MTFP**

New Homes Bonus		2019/20	2020/21	2021/22	2022/23
		£m	£m	£m	£m
2016/17 Allocation		0.136			
2017/18 Allocation		0.100	0.100		
2018/19 Allocation		0.013	0.013	0.013	
2019/20 Allocation		0.142	0.142	0.142	0.142
2020/21 Allocation }	expected to be		0.000	0.000	0.000
2021/22 Allocation }	withdrawn - 2019			0.000	0.000
2022/23 Allocation }	Fair Funding Review				0.000
<b>Total</b>		<b>0.391</b>	<b>0.255</b>	<b>0.155</b>	<b>0.142</b>

24. As indicated above, there is uncertainty about the future of the NHB Scheme. It is likely that the Scheme will end in 2019/20 and will not feature in the new funding regime from 2020/21 onwards. To that end, the Committee will note the current planning assumption is that NHB grant will be withdrawn as part of the Fair Funding Review and no 'new' bonus payments will be received over and above the legacy payments from previous years grant awards. This does not reflect the worse-case scenario as the grant could be withdrawn in its entirety with the legacy payment period reduced from 4 years to zero but the view taken is that the Government is committed to making the legacy payments.
25. There is no indication at this stage that a new Housing Unit Incentive Grant Scheme will be implemented as a replacement to NHB. Indeed, with the introduction of the Housing Delivery Test as part of the National Planning Framework, the Government appears to be moving to a punitive rather than incentive based system to encourage house building.

## Council Tax

26. The Council's share of council tax at Band D is currently £265.34. Councillors approved an increase of £7.70 (2.99%) when setting the budget for this year, being the maximum increase permitted for District Councils. Current council tax referendum principles limit increases in council tax for District Councils to the following:-

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

27. The MTFP assumes the principles will remain unchanged for 2020/21 allowing a maximum increase of 2.99% in each year to 2022/23.
28. The government's preferred measure of local authority funding is their forward projection of council spending power and in the most recent data published as part of the finance settlement for this year they assume local authorities will apply the maximum permitted increase in council tax each year.

## **Estimated Balances and Reserves**

29. In addition to the sources of funding outlined above the plan considers the level of available balances and reserves and proposes a strategy for their use. An updated analysis of balances and reserves is underway linked to the closedown of the Council's accounts for 2018/19. The intention is to report on this work to the June meeting of the Committee. The report will consider the scope available to transfer reserve balances to the Budget Support Reserve to assist with the transition to a lower cost base over the medium term.
30. The key issues to note at the present time in relation to Balances and Reserves are:-
- it is assumed at this stage that the minimum working balance (the General Fund Balance) will remain unchanged at £1.0m as will the funding for the Liberata Bond Reserve (£250k). A review of the adequacy of these reserves will be undertaken with the annual Balances and Reserves Review which will be report to the June meeting of this Committee;
  - certain earmarked reserves (e.g. Local Development Framework, VAT Partial Exemption, and Insurance and Risk Reserve) are held either as part of the Council's management of risks or to help smooth out 'lumpy' spending profiles from one year to the next. These are reviewed annually, both as part of the closure of the Council's accounts and also as part of the budget setting process.
31. It is stressed that whilst the use of reserves allows the Council to incur expenditure above its ongoing resources, it is not sustainable to continue doing so at current levels; hence the need to align expenditure with projected future resources is a key theme of the Council's financial strategy. The latest position on reserves (based on the draft out-turn for last year and the approved budgeted use in 2019/20) is shown in **Appendix A**.

## Medium Term Financial Plan 2020/21 to 2022/23

32. Work has been ongoing to update and roll forward the Council’s MTFP for the period 2020/21 to 2022/23. This takes into consideration decisions on the budget for 2019/20 and the outcome of this work forms the basis of this report.
33. Table 4 below provides a summary of the MTFP 2020/21 to 2022/23 whilst a more detailed analysis is provided at **Appendix B** (which, at this stage, excludes any use of reserves):-

**Table 4: Medium Term Financial Plan 2020/21 to 2022/23 (No Use of Reserves)**

	Approved Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
<b>Net Expenditure</b>	12,908	13,939	14,825	15,373
<u>Less</u> Retained Business Rates	(4,505)	(4,312)	(4,124)	(3,939)
<u>Less</u> Revenue Support Grant	0	0	0	0
<b>Fiscal “Gap”</b>	<b>8,403</b>	<b>9,627</b>	<b>10,701</b>	<b>11,434</b>
Collection Fund Surplus – C. Tax	(375)	(300)	(100)	(100)
Collection Fund Surplus – NNDR	(400)	(300)	(150)	(150)
Council Tax Income	(6,384)	(6,625)	(6,874)	(7,133)
<b>Local Funding “Gap”</b>	<b>1,244</b>	<b>2,402</b>	<b>3,577</b>	<b>4,051</b>

Source: Appendix B

34. Table 4 shows, **before considering the use of reserves**, a projected deficit on the Council’s MTFP of £4.0m by 2022/23 with the most immediate issue being a budget shortfall in 2020/21 estimated currently at of £2.4m **assuming no action is taken to deal with this shortfall**.
35. The MTFP has been developed on the basis of a range of assumptions. It reflects the ongoing cost of current service delivery and takes into consideration the decisions Councillors have taken when setting the latest budget. The key assumptions are set out in **Appendix C** and the Committee is asked to note these at this stage.

## The Financial Strategy 2020/21 to 2022/23

36. The Council has an established Financial Strategy which remains relevant and is based on the following themes:-
- **Growing** the Council’s income by increasing taxable capacity, both in Business Rates and Council Tax. This will focus on using the funding mechanisms now in place for local government being:-
    - the Business Rate Retention Scheme which will mean that the Council must actively consider ways in which it can increase income from business growth to ensure that funding for services can be maintained; and
    - the Council Tax System which will mean implementing Council Tax increases at the maximum possible and actively facilitating and encouraging the delivering of new housing.



- **Charging** for services, raising income which will mean that it is possible to continue providing services that resident's value. This involves reviewing the level of fees and charges, reducing the subsidy on services and considering the introduction of new fees and charges;
- **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, for example Digital by Default and working with partners, including local town and parish councils to sustain local facilities. Reducing net costs also includes increasing revenue and implementing the Council's Commercial Strategy;
- **Stop** spending on lower or non-priority areas.

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

## **Growing**

### Growth in Retained Business Rates Income

38. 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. This needs to be over and above the level at which the tax base is reduced each year as a result of the Appeals process.
39. To put this in some context, the Council's business rates tax base is currently £52.5m. In broad terms, for every £1.5m growth in the Taxbase (equivalent to, say, an additional Superstore), the Council's income would increase by c£412k (adopting the current standard NNDR multiplier of 49.1p and assuming no other changes such as the award of reliefs).
40. There is, therefore, a clear link here with a strategic approach to economic growth and regeneration within the Borough. Councillors will be aware of the Council's plans to extend the existing Lomeshaye Industrial Estate. Phase 1 of the extension is likely to be underway in the current financial year and discussions are ongoing with the new owners of the Phase 2 site with a view to that development progressing at the earliest opportunity.

### Pooling of Business Rates

41. The Council has remained a member of the Lancashire Business Rates pool which was converted into a 75% Pilot Scheme for 2019/20. Under this pooling arrangement the Council retains the levy which would otherwise have been paid to the Government, from which a contribution is made to two Lancashire Wide funds, a Risk Resilience Reserve and a Strategy Economic Growth and Financial Sustainability Fund. The downside risk is that as an individual Council any protection afforded by the safety net mechanism is foregone.
42. This emphasises the importance of effective monitoring and reserve provisioning to mitigate this risk. Under the 50% Business Rates Retention Pooling agreement in 2018/19, the Council will retain 90% of the levy payment to Government with 10% being Lancashire County Council's share. More information on this will feature in the 2018/19 out-turn report to the June meeting of the Committee.

### Growth in Council Tax Income

43. The amount of Council Tax income collected by the Council is the function of the rate of Council Tax, the taxable capacity of the Borough and the rate of Collection.
44. The rate of Council Tax is, within the bounds of Government's Referendum Principles for Council, a matter for Councillors to determine on the basis of Officer recommendation.
45. Increasing the taxable capacity of the Borough is dependent on a range of matters not least the provision of new housing. As well as seeking to develop residential schemes using Council-owned land and assets, primarily through our joint venture arrangements with Barnfield and Together Housing, there is a continuous process of reviewing extant planning consents for other developments to determine to what extent the Council might be able to facilitate delivery of these schemes.
46. The target Collection Rate for Council Tax in 2019/20 is 96.5% of in-year Council Tax due. Work is planned to consider what actions can be taken to improve collection.

### **Charging**

47. The Council reviews its fees and charges annually. The next review will be undertaken in the coming months and reported to the Committee in September. In doing so, the opportunity will be taken to revisit the introduction of charges for services that residents value, for example, reviewing the charging policy for the collection of Garden Waste.
48. In addition to the above work, consideration will be given of the scope to adopt a more commercial approach where it is appropriate to do so. In recent years the commercialisation agenda has grown within local government and may provide additional income opportunities for the Council drawing on best practice elsewhere in the sector. This committee approved the Council's Commercial Strategy in 2018/19 from which an action plan is being drawn up as part of the early budget development work in 2019/20.

### **Saving**

49. Whilst the Business Rate Retention Scheme does offer some opportunity to increase the Council's income, any growth in the near term will not deliver the scale of additional income required to offset the reduction in core funding. Any measures considered now as a means of increasing income in the above areas could take a significant time to implement before additional income flows are generated.
50. Equally, the Council's ability to charge for services or reduce the extent of discounts will not, in isolation, generate sufficient additional income to make up for the funding shortfall faced by the Council. In view of this, the Council must continue to identify ways in which it can reduce expenditure in other ways to ensure that it maintains a balanced budget over the medium term.

### **Stop**

51. This is a more recent theme within our strategy, resulting from the follow up visit by the LGA Peer Review team in late 2016. It also remains the least developed theme under the current strategy. The difficulties of being explicit as to what are not priorities for the Council are acknowledged. Nevertheless, given the forecast reductions in core funding it will be necessary to address this to help ensure limited resources are used optimally to deliver what are the key priorities for the Council.

52. A key consideration of this element of the strategy is to determine to what extent the Council can encourage the delivery of some services by other bodies so that the Council can stop providing them. An example of this is the success of the transfer of services and assets to Town and Parish Councils and the Council will want to consider to what extent this part of the Strategy can continue to be delivered.

Strategy for Budget Savings in 2020/21 to 2022/23

53. The Council has a good track record of delivering savings since 2010, from when savings totaling c£8.750m have been realised. The budget process for the current year included agreed savings of £0.75m. Many of these savings have been achieved whilst minimising the impact on street level services which Councillors identified as a priority.
54. Against this backdrop, and the ongoing requirement for significant savings, the ability to deliver further efficiencies is limited; savings of the magnitude set out above will mean reductions in frontline services and will require Councillors to take difficult decisions in this regard. The proposed strategy for saving costs builds on the work already undertaken in recent years.
55. With this in mind, Councillors have previously resolved that Management Team should develop a 3-year strategy comprising a package of savings options acknowledging that this, for example, would involve strategic reviews of the delivery a range of services. Details of the Strategy have been included in previous reports but some of the key themes for the development of these savings options include:-
- maintaining the staffing structure under review to ensure it remains lean but sufficiently resilient to cope with the changes in the delivery of services as the resource base reduces;
  - continuing the programme of activity working with Town and Parish Councils to retain the delivery of services and community facilities locally;
  - reviewing the delivery and scope of leisure and cultural services to ensure they continue to offer value for money. Indeed, a report elsewhere on the Agenda for this meeting provides an update on the Strategic Review of Leisure Services;
  - reducing funding for discretionary services to ensure that sufficient resources are available to fund the Council's statutory obligations and street level services where possible;
  - changing the way residents access Council Services with a continued emphasis on self-serve / automated processes for transactional type activity (i.e. as part of our move to become 'digital by default');
  - reviewing the efficiency, scope and delivery of key frontline services such as Refuse Collection, Street Cleansing and Grounds Maintenance and associated vehicle requirements;
  - exploring the scope for driving out further efficiencies from the Council's partnership arrangement with Liberata;
  - undertaking a review of service standards to ensure that the Council continues deliver good service but at the least cost;

- implementing further measures identified in the Commercial Strategy including, for example, a Property Investment Strategy which is considered in a report elsewhere on the Agenda for this meeting.
  - undertaking technical reviews (in areas such as provisions, Minimum Revenue Provision, Housing Benefit Subsidy, the use of Flexible Capital Receipts) to determine what scope there is to reduce costs to the Council;
  - reviewing Council Tax collection rates, discounts and exemptions to determine what scope there is to increase the Council Tax yield;
  - working in partnership with other organisations to share the costs of service delivery and in particular with Burnley BC who have also appointed Liberata as their Strategic Partner.
56. The Committee should note that this is not an exhaustive list. Nevertheless, work to develop these options has commenced and will be subject to more detailed consideration with any proposals reported to Councillors at the appropriate time. Ideally, we would like to secure agreement to savings proposals for next year in phases as we have in the previous budget rounds. To this end we propose that options for savings be submitted to meetings of Council in October/November with final decisions on the budget to be taken in February 2020.
57. Acknowledging the importance of this work and the need to involve Councillors in the development of savings, the Committee is asked to appoint a Cross-party Budget Working Group of 8 Councillors (3 Con: 3 Lab: 2 Lib Dem) to develop the options for savings for 2020/21 (giving consideration where necessary to options over the MTFP period.)

#### Strategy for Using Reserves and Balances

58. In support of the above strategy, it is proposed to use balances/reserves to smooth the impact from year to year. However, balances and reserves are a finite resource which cannot be relied on indefinitely to balance the budget. The level of available balances and reserves is declining as their planned use is confirmed each financial year and the scale of budget variances starts to reduce.
59. The out-turn report to June's Policy and Resources Committee will provide an draft year end budget performance position and updated reserve balances as at 1<sup>st</sup> April 2019. For the purposes of this update of the MTFP the current strategy is assumed:
- *the Minimum Working Balance will remain at £1.0m over the period to 2022/23 (and the balance of the Bond Reserve will remain unchanged at £0.25m).*
  - *Committed (Specific) Reserves will be used only for the purposes for which they have been set aside and will be subject to review; where possible reserves will be amalgamated with the Budget Support Reserve to bolster support for the budget, and*

- an amount of £1.7m will be used from the Budget Support Reserve over the next three years (£1.060m in 2020/21 and £0.650m in 2021/22). **This, combined with the budgeted use in the current year of £1.082m means, on current projections, the Council will have all but fully used the balance available on the Budget Support Reserve as at 31/03/2022.**

60. Table 5 below shows the impact of the applying this Strategy on the Council's Medium Term Financial Plan. A key objective of the work required to address the budget shortfall is to try and ensure there is a residual balance on the Budget Support Reserve of £0.650m for use in 2021/22. On current plans it is projected that there will only be circa. £196k left on this reserve by March 2022 which explains in part why the deficit in the final year of the plan period increases significantly. There is the option of varying the profiled use of the reserve from that currently assumed in the plan. We could for example use less in 2020/21 and 2021/22 and increase the savings requirement for those years. This will be maintained under review as the plan progresses.

**Table 5: Use of Balance and Reserves and the Impact on the MTFP**

	Approved Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
<b>Local Funding "Gap" (per Table 4 above)</b>	<b>1,244</b>	<b>2,402</b>	<b>3,577</b>	<b>4,051</b>
Use of Budget Support Reserve	(1,082)	(1,060)	(650)	-
Use of Specific Reserves	(162)	(91)	(74)	-
<b>Total Use of Reserves</b>	<b>(1,244)</b>	<b>(1,151)</b>	<b>(724)</b>	<b>-</b>
<b>Residual Funding "Gap"</b>	<b>-</b>	<b>1,251</b>	<b>2,853</b>	<b>4,051</b>
<b>Year on Year Savings Required</b>	<b>-</b>	<b>1,251</b>	<b>1,603</b>	<b>1,198</b>

61. As Table 5 indicates, applying the reserves strategy above requires a further £1.875m to be drawn from reserves but still means that savings of £4.1m are required over the next three years. The most immediate issue being the need to find savings of c£1.3m for 2020/21.

***Draft Budget Strategy 2020/21 to 2022/23***

62. Looking specifically at the Budget Strategy for **2020/21 to 2022/23**, it is proposed that the key elements are as follows:-

- pursue, the Growing, Charging, Saving and Stop strategy as set out above (with a specific focus on the development of savings options as set out);
- no budget growth without equivalent savings being proposed;
- use of £1.7m from the Budget Support Reserve in support of the budget (plus the use of specific reserves where these are required).

- Undertake a review of remaining Reserves and Balances to determine the scope and implications of ‘freeing up’ committed reserves in support of the General Fund Budget.
- no prudential borrowing as already assumed in the Medium Term Capital Programme unless such borrowing results in ongoing revenue savings (the affordability of the *capital programme will be reviewed in parallel with the Revenue Budget*);

63. Applying this Strategy requires estimated budget savings of c£4.1m (as per Table 5 above) to be identified over the next three years, all of which should be ongoing reductions in the Council’s budget. *For the avoidance of doubt, adopting the strategy outlined above will mean the Council only has circa. £196k left in the Budget Support Reserve at the end of the plan period. The extent to which savings are not implemented on the scale required will mean this position is reached sooner than is currently assumed in the plan.*

### Budget Consultation

64. The approach to consultation as part of the preparation of the budget for 2020/21 will form part of the work programme and be reported via the Committee but will include consultation with staff and Unions.
65. In relation to the Area Committees, reports will be submitted to the January cycle of meetings. The resolutions of each Area Committee will be reported to this Committee. With respect to the business community, budget papers will be sent to the East Lancashire Chamber of Commerce following the December meeting of the Committee.
66. The Committee may wish to consider what, if any, further consultation should be undertaken to inform the Council’s development of the budget. Indeed, it is proposed that this matter is an issue for early consideration by the proposed Budget Working Group.

### Next Steps

67. As indicated above, this report provides an update on the Council’s Medium Term Financial Plan and, given the assumptions outlined above, provides details of the financial envelope the Council should operate within. Table 6 below outlines the timetable for the service and financial planning process going forward culminating with the setting of the Council’s Budget and the Council Tax for 2020/21:-

**Table 6: Proposed Forward Timetable for the Development of the Budget 2019/20**

Date	Action	Status
May	Update of Medium Term Financial Plan	Completed
June	Completion Refresh of Service Plans Review level of Reserves post 2019/20 Out-turn	
September	Mid-year review of savings options – report to P&R Committee	
October	Refine Medium Term Financial Plan to 2022/23 – 1 <sup>st</sup> tranche of savings to Council for decision	

Date	Action	Status
	Decision deadline for Council's membership of Lancashire Business Rates Pool (31/10/19).	
	Publication of Autumn Statement and outcomes of Spending Review and Fair Funding Review	
Nov	Early drafting of Budget for 2020/21 and Revised Budget for 2019/20	
Nov/Dec	Provisional Local Government Finance Settlement 2020/21	
	P&R Committee considers initial budget submissions (revenue & capital) – 2 <sup>nd</sup> tranche of savings to Council for decision.	
Dec-Jan 2019	Proposed Draft Budget 2020/21 developed	
Jan 2019	Final Local Government Finance Settlement 2020/21	
Feb 2019	P&R Committee recommends Budget and Council Tax to Council	
Feb 2019	Council sets final Budget and Council Tax for 2020/21	

## IMPLICATIONS

### Policy

68. The forward projections in the report represent a significant challenge to service provision in the short to medium term. There is a need, therefore, to put in place a strategic approach to future financial planning with a particular focus on a move to a more sustainable budget base over the medium term planning period. The development of the Financial Strategy represents the next stage in the process of the Council's strategic financial planning process.
69. The report recommendations include setting up a Cross-party Budget Working Group whose remit should be to develop charging and savings proposals to reduce the Council's net expenditure by £1.251m for consideration in the development of the budget for 2020/21, and to identify further charging and savings options to deal with the balance of the budget deficit to 2022/23.

### Financial

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

### Legal

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

### Risk Management

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

73. The key risk for the Council highlighted in this report is the future funding provided by the Government for both revenue and capital spending. The cumulative reduction in our core funding since 2010/11 poses a significant business risk to the Council and requires effective action to be taken.
74. There is a need, therefore, to put in place plans to make substantial savings to achieve a balanced budget and this will inevitably impact on the Council's ability to maintain existing service levels.
75. To help address the funding deficit, this report sets out a strategy to grow income, charge for services and to save costs. This is underpinned by using reserves over a three-year period as a means of 'smoothing' the amount the Council needs to save to achieve a balanced budget.
76. The most immediate issue for the Council is develop plans to save £1.251m in 2020/21 as well as developing other options which will reduce the Council's net expenditure by £4.1m over the period to 2022/23.
77. There remains a great deal of uncertainty regarding the timing and implications of reforms to the business rates retention system combined with the outcome of the Spending Review and the Fair Funding Reviews. The Government has reiterated its commitment to implement a system whereby 75% of rates income is retained locally but much more detailed work and analysis is required before the implications of this for Pendle can be accurately assessed. Government are running a number of varied Pilot schemes to test what future arrangements may achieve in allocating resources, Pendle is currently a member of the Lancashire 75% Pilot Pooling Agreement.

### **Health and Safety**

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

### **Sustainability**

79. 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**

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

### **Equality and Diversity**

81. In compliance with the Council's duties on equality and diversity, changes in the budget that impact on the provision of services will need to be properly assessed to ensure Councillors are fully aware of the impact on the community. An Equalities Impact Assessment will be undertaken on proposals as they are developed where this is considered necessary to do so.



## **APPENDICES**

**Appendix A** – Summary of Reserves to 2022/23 (provision out-turn pre- Audit).

**Appendix B** – Medium Term Financial Plan 2020/21 to 2022/23

**Appendix C** – Key Assumptions for Medium Term Financial Plan 2020/21 to 2022/23

## **LIST OF BACKGROUND PAPERS**

Papers held in Financial Services