

REPORT OF: CHIEF EXECUTIVE
TO: POLICY AND RESOURCES COMMITTEE
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**UPDATE TO MEDIUM TERM FINANCIAL PLAN 2020/23
AND BUDGET SAVINGS OPTIONS 2020/21**

PURPOSE OF REPORT

1. The purpose of this report is to provide the Committee with an update to the Council's Medium Term Financial Plan and, in view of the forecast budget gap, present a number of saving proposals for consideration by the Policy and Resources Committee to recommend to Council in September for early approval in support of the Council's revenue budget for 2020/21.

RECOMMENDATIONS

2. The Policy and Resources Committee is recommended:-
 - a) note the outcome of the Spending Review 2019, which provides the financial envelope for Local Government spending for 2020/21 only;
 - b) note the update the Council's Medium Term Financial Plan which shows a forecast budget deficit for the period to 2022/23 of £4.0m; and
 - c) to consider and approve budget saving proposals for 2020/21 as outlined in this report for submission to Council on 26th September 2019.

REASONS FOR RECOMMENDATION

3. To seek early approval for a number of budget saving proposals in support of the requirement to save an estimated £4.0m by 2022/23. This is the projected amount of savings required as set out in the Council's Medium Term Financial Plan covering the three year period 2020/21 to 2022/23.

Background

4. At the meeting of this Committee in May 2019, following the setting of the Council's budget for 2019/20, Councillors received an update to the Council's Medium Term Financial Plan for the period 2020 to 2023. This report provides an updated Medium Term Financial Plan taking into consideration, amongst other matters, information released as part of the Spending Review 2019 and reflecting updates to some of the assumptions made at that time.
5. Consideration of the Medium Term Financial Plan is an essential part of the Council's Financial Strategy and budget setting process. As Councillors are aware, the Council has been the subject to significant reductions in its core revenue funding since 2010 and the impact of this continues to be reflected in the updated Medium Term Financial Plan.
6. As outlined below, the Medium Term Financial Plan identifies a savings requirement of c£4.0m over the 3 year period to 2022/23 with the most immediate issue being a requirement to identify measures to deal with a budget gap of c£0.9m in 2020/21. This report proposes a first round of savings proposals for Councillors to consider.

Spending Review 2019

7. Councillors will be aware that the 4-year funding settlement agreed with the Government (as with 97% of all Councils in England) expires at the end of the current financial year. Acknowledging this, the Government had previously announced that a Spending Review would take place in the Autumn 2019 which would set out its spending plans for the next 3 years (2020 to 2023). The then-Chancellor of the Exchequer, Philip Hammond, announced as part of the Spring Statement in March 2019 that the Spending Review would only happen as planned *'if a Brexit deal is agreed over the next few weeks'*.
8. Despite several attempts, no deal was agreed then (or, indeed, since). Up until the resignation of Theresa May as Conservative Party Leader, which triggered a leadership contest, HM Treasury continued to hold to their original plan of a long-term Spending Review. However, in June 2019, it was becoming clear that due to the impasse over Brexit and the Conservative Party Leadership contest, whilst work on the Spending Review had begun, the likelihood of concluding a long-term Spending Review was remote but it was acknowledged that budget limits would be required for 2020/21.
9. As a consequence, on 4th September 2019, the Chancellor of the Exchequer announced a one-year only Spending Review for 2020/21. Some of the key announcements impacting on Pendle include:-
 - Overall, there will be real terms increase in funding for Local Government (Core Spending Power) of 4.3% in 2020/21. ***How this is distributed amongst Councils is not clear but given the focus on Social Care, there is no guarantee of a funding increase for Council's like Pendle;***
 - Implementation of both the Fair Funding Review and the move to 75% Business Rates Retention, which were both due to be implemented from April 2020, has now been pushed back April 2021. ***Without seeing the detailed impact of both of these changes on individual Councils, it is difficult to determine whether this delay is beneficial for the Council or not. The Fair Funding Review will review the needs based allocations for Councils so, given the needs based assessment has not been reviewed for a number of years, intuitively it could be assumed that the Fair Funding Review would benefit the Council;***

- The referendum limit for Council Tax will be 2.0% for Councils like Pendle (Councils that are Social Care Providers may have the option to precept an additional 2.0%). **The assumption for Council Tax increases in the Medium Term Financial Plan is 2.99% (assuming a referendum limit of 3.0% as in previous years) so the proposed limit is 1.0% less than assumed;**
 - New Homes Bonus legacy payments will be made in 2020/21 (but it is not clear whether any new New Homes Bonus payments will be made). **The Medium Term Financial Plan is based on this and therefore there is no impact.**
10. The Spending Review sets Departmental Spending Limits and given these are at a high-level for each Department including Local Government, it is not possible to determine funding allocations for individual Councils like Pendle.

Local Government Funding Settlement 2020/21

11. As indicated above, and as with other Spending Reviews, Spending Review 2019 established Departmental Spending Limits for 2020/21 for each Government Department. It is not possible to determine from the Spending Review what Pendle's funding will be in 2020/21 at this stage.
12. Following late announcements of the provisional Local Government Finance Settlement in previous years, the Government has committed to making an announcement on the Settlement for 2020/21 in early December 2019. Acknowledging that, it is worth highlighting a couple of matters that Councillors need to be aware of.

Business Rates Pooling 2020/21

13. A key issue for the Council is the continuation of the Lancashire Business Rates Pool for 2020/21. As Councillors are aware, the Council is currently part of the Lancashire Business Rates Pool which, for 2019/20, is also piloting the 75% Business Rates Retention Scheme. The benefits of the current pooling arrangement (based on 75% Business Rates Retention) are two-fold:-
- No payment of a levy on any business rates growth above a set baseline, with all funds retained by the Council (albeit with the downside that any shortfall in business rates is wholly funded by the Council). Historically, the Council has experienced growth in business rates above its baseline and therefore has not had to pay a levy;
 - The majority of the additional share of business rates due to the 75% Business Rates Retention Scheme is retained by the Council.
14. It is not clear at the time of writing whether the Lancashire Business Rates Pool will continue either in its current form or, indeed, at all. The continuation of the Pooling arrangement is dependent on both Government consent and there being no change in the membership of the Pool (either Councils choosing to join or leave the Pool).
15. In terms of the latter, there is no indication yet that the composition of the Pool will change and in confirming the Pooling arrangements for 2019/20, the Government indicated that the present pool would continue indefinitely although, at that time, it was probably assumed that the 75% Business Rates Retention Scheme would be introduced in April 2020. It is not clear whether the delay on the introduction of the new scheme will, therefore, have a bearing on the continuation of the Lancashire Business Rates Pool in its current form.

16. In the report to this Committee in May 2019 on the Medium Term Financial Plan, it was assumed that the Government would retain the Council Tax Referendum principles that it has applied for the last two years, allowing Councils to raise Council Tax by 2.99% before a referendum is required.
17. As indicated above, the Spending Review 2019 indicated that Councils (that are not Social Care Providers) would be allowed to raise Council Tax by 1.99% before a referendum is required, 1.0% less than assumed in the Medium Term Financial Plan. Whilst acknowledging that the level of Council Tax is for Councillors to consider as part of their budget setting plans, this change in assumption adds c£400k to the cumulative budget deficit with the immediate impact being an additional £64k in 2020/21.

Forecast Outturn 2019/20

18. Councillors received an update on the budget for the current financial year at the last meeting of this Committee. The forecast outturn for 2019/20 is an underspend of £72k. As a consequence, this will result in a net contribution from the Budget Strategy Reserve of £1.010m and not £1.082m as budgeted.
19. It is acknowledged that the information above is based on the budget monitoring position for the first quarter and so further updates on the Council's budget for 2019/20 will be provided as the financial year progresses.

Estimated Balances and Reserves

20. At the meeting of this Committee in June 2019, Councillors considered both the General Fund Revenue Outturn for 2018/19, which set out the final position on the Council's Reserves as at 31st March 2019. A subsequent review of the Council's Balances and Reserves was undertaken during the Summer and was reported to this Committee in August 2019. Taking into consideration the Forecast Outturn for 2019/20, **Appendix A** provides an analysis of the Council's current forecast of Balances and Reserves for the period to 2022/23.

Updated Medium Term Financial Plan 2020/23

21. Table 1 below provides an update to the Council's Medium Term Financial Plan for 2020/23. A more detailed analysis is provided at **Appendix B**:-

Table 4: Medium Term Financial Plan 2020/21 to 2022/23

	Approved Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
Net Expenditure	12,908	13,718	14,590	15,125
<i>Less</i> Retained Business Rates	(4,505)	(4,312)	(4,124)	(3,939)
<i>Less</i> Revenue Support Grant	-	-	-	-
Fiscal "Gap"	8,403	9,406	10,467	11,186
Collection Fund Surplus (CTax/NNDR)	(775)	(800)	(250)	(250)
Council Tax Income	(6,384)	(6,560)	(6,741)	(6,927)
Structural "Gap"	1,243	2,046	3,476	4,009
Reserves	(1,243)	(1,151)	(734)	-
Budget 'Gap'	-	894	2,742	4,009
Estimated Annual Savings	-	894	1,848	1,268

22. Table 2 below provides a comparison of the change in estimate of annual savings since the last report on the Medium Term Financial Plan to this Committee in May 2019.

Table 2: Comparison of Estimated Annual Savings - Changes

	Approved Budget 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000
MTFP – Annual Savings – May 2019	-	1,251	1,603	1,198
MTFP – Annual Savings – Sept 2019	-	894	1,848	1,268
Overall Change	-	(357)	+245	+70

23. Overall, the Budget ‘Gap’ remains largely unchanged with estimated savings of £4.0m required by 2022/23. The incidence of savings has, however, changed due for example to:-

- estimated additional income from the Collection Fund Surplus for Council and Business Rates in 2020/21 taking into account both the outturn on the Collection Fund in 2018/19 and current performance in 2019/20;
- firming-up of borrowing costs following actual borrowing undertaken in 2019/20;
- revised assumptions on investment income reflecting the outturn for 2018/19 and higher than expected cash levels;
- factoring in the savings arising from the anticipated reduction in the number of Councillors from May 2020 following the proposals from the Local Government Boundary Commission for England on the review of the Council’s Membership;
- the change in the assumption in Council Tax as a consequence of the announcement in the Spending Review 2019 that the Referendum Limit will be 1.99% and not 2.99% as assumed. Over the life of the Medium Term Financial Plan, this adds c£400k to the budget gap.

24. Other matters that Councillors should note in relation to the Medium Term Financial Plan are as follows:-

- **Lancashire Business Rates Pool** – As outlined above, it is not known at this stage whether the present Business Rates pooling arrangement will continue into 2020/21. The Medium Term Financial Plan currently assumes this to be the case;
- **Council Tax** – Council Tax is now assumed to increase by 1.99% and 2.99% as in previous years. This reflects the change in the Referendum Limit as set out in the Spending Review 2019;
- **New Homes Bonus** – No new New Homes Bonus payments are assumed but legacy payments are included in each year of the Medium Term Financial Plan where they apply;
- **Pension Contributions** – as highlighted in the previous report, the triennial review of the Lancashire Pension Fund is currently underway. The outcome of this review will determine the pension contribution rates payable by the Council from April 2020 for the next 3 years. Whilst provision has been made in the Medium Term Financial Plan on the basis of the best information available, the actual contribution rates are unlikely to be known until towards the end of the current calendar year and may vary from those assumed;

- **Pay Award** – Nationally, the Trade Unions have requested a pay award of 10% for 2020/21; the assumption in the Medium Term Financial Plan is currently 2.0% and therefore any agreement beyond this level will result in an additional cost pressure for the Council.

25. As ever, the Medium Term Financial Plan will remain under review and a further update will be provided to Councillors in due course as part of the development of the Council's budget for 2020/21.

Initial Savings Proposals for 2020/21

26. Acknowledging the need for the Council to take early action to address the budget shortfall referred to above, work has been underway to identify savings proposals for the Committee to consider recommending to Council. The aim in reporting on these proposals is to try and secure agreement, where possible, to an initial package of savings so that progress can be made to allow more time focus on identifying further proposals to at least achieve the target savings for the year to avoid any further call on the Council's reserves.

27. The proposals now submitted for consideration total £386k and are summarised below:-

Table 2: Initial Savings Proposals 2020/21

	Ref	£000
For Approval		
Staffing – Management of Vacant Posts	S1	177
Grounds Maintenance – Contributions from Local Councils	S2	90
Changes to Manual Sweeping	S3	25
Change to Mechanical Sweeping	S4	47
Reduction in funding for Citizens Advice Bureau	S5	10
Reduction in funding for Late Night Bus Service	S6	8
For Note		
Transfer of Women's Refuge to Safenet	n/a	19
Reduction in Rent for Number One Market Street	n/a	10
Total Proposed Savings		386

28. For each of the proposals listed above, there is a pro-forma attached at **Appendix C** which provides more information. The Policy and Resources Committee is requested to endorse the proposals outlined in **Appendix C** and agree that these may be submitted to Council in September for formal approval and adoption in support of the Council's revenue budget for 2020/21.

29. In addition to the savings summarised above, Councillors will also find elsewhere on the Agenda for this meeting a report on the annual Income Review which proposes changes to fees and charges. It should be stressed that Councillors should consider the Income Review proposals in the context of the Medium Term Financial Plan to 2022/23 as set out above.

IMPLICATIONS

Policy

30. This report outlines changes to aspects of current Council policy and will, subject to approval by the Policy and Resources Committee, be reported to Council for final determination.

Financial

31. The financial implications are as set out in the report.

Legal

32. There are no legal implications arising directly from this report.

Risk Management

33. The key risk is considered to be the failure to make savings on the scale required leading to a greater use of reserves than is currently planned. This could result in an increased call on the Budget Support Reserve forcing a higher savings requirement in subsequent years with less time to develop and implement the more strategic saving options (e.g. alternative service delivery models). It is considered that this risk is increasing given the degree of uncertainty in respect of significant core funding streams after 2019/20.

Health and Safety

34. There are no health and safety implications arising directly from this report.

Sustainability

35. There are no sustainability implications arising directly from this report.

Community Safety

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

Equality and Diversity

37. No specific issues arise from the savings currently proposed.

APPENDICES

Appendix A – Estimated Balances and Reserves 2020/21 to 2022/23

Appendix B – Updated Medium Term Financial Plan 2020/23

Appendix C – Savings Pro-Forma

LIST OF BACKGROUND PAPERS: None