

REPORT OF: CHIEF EXECUTIVE

TO: POLICY AND RESOURCES COMMITTEE

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FINANCIAL STRATEGY
UPDATE OF THE MEDIUM TERM FINANCIAL PLAN 2021-24

PURPOSE OF REPORT

1. The purpose of this report is to provide the Policy and Resources Committee with an update on the Council's Financial Strategy and Medium Term Financial Plan (MFTP) 2021/24 and to set out a draft Budget Strategy for the period.

RECOMMENDATIONS

2. The Policy and Resources Committee is recommended to:
 - a) note the outlook for Government funding in the period 2021/22 to 2023/24 as explained in the report and in particular the delay to local government funding reforms;
 - b) note the estimated outturn position for 2019/20 and that a further report on this matter will be considered by this Committee in July 2020;
 - c) note the creation of a Covid-19 Support Reserve to provide resource cover for the estimated net financial impact of Covid-19 on the Council and the potential impact of this on the Council's medium term financial position should the Council receive no further financial support from the Government;
 - d) continue to lobby the Government to fully reimburse the Council for the net financial impact of Covid-19;
 - e) note the proposed Financial Strategy for 2021/24 (and the supporting Medium Term Financial Plan 2021/24 as shown at [Appendix C](#)) as set out in the report and in doing so the strategy for the use of Balances and Reserves over the same period;
 - f) agree to retain the cross-party Budget Working Group and request that it:
 - i. commences the detailed work required on the main areas proposed for review in the current year as outlined in paragraph 57 of this report;

- ii. develops charging and savings proposals to reduce the Council's net expenditure by £1.0m for consideration as part of the budget for 2021/22;
 - iii. identifies further charging and savings options to deal with the balance of the budget deficit between 2022/24;
 - iv. consider what, if any, consultation on the Council's budget should be undertaken to inform the development of the budget for 2021/22;
- g) note that a separate report on the Medium Term Capital Programme will be presented to the next meeting of the Policy and Resources Committee in July 2020.

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. In February 2020, the Council set its Revenue Budget and Capital Programme for 2020/21. As a consequence of the impasse over BREXIT and the subsequent General Election, the Government implemented a one-year Spending Review for 2020/21 and the Council, as with all Local Authorities, received a one-year funding settlement for the year. After a number of years of austerity, which saw a significant reduction in the Council's core funding, the one-year funding settlement provided a marginal increase in funding when compared to the previous year seemingly signaling an end to austerity.
- 5. But, as Councillors will be acutely aware, this report is presented in the midst of the Covid-19 Pandemic which is undoubtedly one of the most significant matters that has had a global impact for a generation. The absence of a vaccine for the disease means that measures to control the transmission of the virus look likely to remain for some time to come and will continue to impact on the way in which the Council operates and, relevant to this report, its financial standing.
- 6. In this respect, the most immediate issue is the effect of Covid-19 on the Council's budget in 2020/21. This is considered in more detail in the report and provides the backdrop to an update of the Financial Strategy and Medium Term Financial Plan for the period 2021/24 so that Councillors can start giving consideration to the formulation of a Budget Strategy for the next financial year and over the medium term.

Funding Outlook 2021/24

- 7. Any consideration of the Council's Financial Strategy and Medium Term Financial Plan must be undertaken in the context of the funding outlook for Local Government and what that means for the Council.

Comprehensive Spending Review

8. As Councillors may be aware, the Government planned to undertake a Spending Review (SR) in 2019 which would have set spending limits for each Government Department including the Ministry of Housing, Communities and Local Government (MHCLG) from which the Council receives the bulk of its financial support. It was anticipated that the SR would, as with previous such reviews, be a multi-year spending review but in August 2019, the Chancellor of the Exchequer announced that, due to the uncertainty with BREXIT, the SR would be limited to 2020/21 only. That SR formed the basis of the Council's budget for 2020/21.
9. On 11th March 2020, as part of the Budget 2020 Statement, the Chancellor of the Exchequer announced that a Comprehensive Spending Review would start in July 2020 and would be completed in time to inform Departmental funding allocations from April 2021. This was intended to be a multi-year setting of Departmental Spending Limits. However, on 24th March, due to the emerging Pandemic, the plans for the CSR were suspended to allow the Government to focus on responding to the public health and economic emergency. Whilst the Government has yet to announce when the CSR will take place, there is speculation that an Emergency Budget will be announced in July 2020 to be followed by an Autumn Statement and the CSR later in the year.

Local Government Finance Reforms

10. The CSR is fundamental to the overall funding envelope for Local Government but equally important are a range of planned reforms to Local Government finance. There are three main areas of reform as follows:-

- **Fair Funding Review** – this review commenced in 2018 with the aim of setting new baseline funding allocations for each local authority based on their relative needs and available resources. The outcome of the review was to inform the funding settlement for Councils for 2020/21 but in September 2019, implementation was delayed until 2021/22 given the uncertainty with BREXIT.

In April 2020, the Government announced the implementation of the review '*would not now go ahead to allow councils to focus on meeting the immediate public health challenge posed by the pandemic*'. Subject to the containment of the Pandemic, it is anticipated that the review will be implemented from 2022/23;

- **Business Rates Retention Review** – the Government had planned to increase the percentage of business rates that Councils keep, from 50% to 75%, from 2020/21. Again, this has been postponed and it is expected this will be implemented in 2022/23;

And, related to Business Rates, in May 2020 the Government announced that, again due to the impact of the Pandemic, the planned revaluation of Business Rates in 2021 will not now take place.

- **New Homes Bonus** – as part of the Funding Settlement for 2020/21, the Secretary of State for MHCLG announced a one-year allocation of New Homes Bonus (plus the legacy payments from previous years). The Government's rationale for a single year payment in 2020/21 was their intention to consult on a new method of incentivising housing growth in Spring 2020.

Again, with the onset of the Pandemic, there has not yet been any consultation on a new method of incentivising housing growth. It is not possible, therefore, to say what this is, how it will work and what the impact on the Council will be.

Funding Forecast for 2021/24

11. With the delay of the CSR and the postponement of these major funding reforms, it is not clear on what basis the Government will set the envelope of funding for Local Government or how any such funding will be distributed to Local Authorities.
12. For the purposes of the development of the Council's Medium Term Financial Plan, it is assumed that the Government will simply roll-forward the 2020/21 Settlement into 2021/22 adjusted for inflation and that the CSR and funding reforms will take place in 2021, informing the Settlement from April 2022. Assuming this, Table 1 below provides a summary of the forecast of funding to 2023/24:-

Table 1: Forecast of core government funding to 2023/24

Year	Revenue Support Grant £'000	New Homes Bonus £'000	Sub-total £'000	Estimated share of NNDR £'000	Total Core Funding £'000
2019/20	-	391	391	4,905	5,296
2020/21	1,164	438	1,602	4,131	5,734
2021/22	1,187	155	1,342	4,214	5,556
2022/23	1,211	142	1,353	4,298	5,651
2023/24	1,235	-	1,235	4,384	5,619

13. Growth in business rates income is dependent on securing economic development and additional employment; for the purposes of the Plan, it is assumed to increase by inflation. Equally, Revenue Support Grant is assumed to increase by inflation over the planning period. It is assumed the Council will continue to receive legacy payments of New Homes Bonus only.

Council Tax

14. The Council's share of council tax at Band D is currently £270.62. Councillors approved an increase of 1.99% when setting the budget for this year. Current council tax referendum principles limit district councils to maximum increases of less than 2% or no more than £5 per annum (whichever is the greater) without the need for a referendum. It is not anticipated that the Government will relax the referendum principles and so the assumption in the Medium Term Financial Plan is that Pendle's Council Tax will be increased by 1.99% each year.

Draft Revenue Outturn for 2019/20

15. Work is underway on the closure of the Council's accounts for 2019/20 although Councillors will appreciate progress with this has been impacted as a result of the work required to respond to the Covid-19 Pandemic. Early indications are that the Council's Revenue Budget will underspend by c£500k in 2019/20.

Estimated Balances and Reserves

16. In addition to the sources of funding outlined above, the Medium Term Financial Plan considers the level of available balances and reserves and proposes a strategy for their use. Subject to confirmation of the Revenue Outturn position for 2019/20, provided at [Appendix A](#) is a summary of the Council's Balances and Reserves as at 31st March 2020. This analysis also includes forward projections of how the reserves will be used.
17. The key issues to note at the present time in relation to Balances and Reserves are:-
- As indicated in [Appendix A](#), acknowledging the estimated financial impact of the Covid-19 Pandemic, which is considered in more detail below, it is proposed to create a Covid-19 Support Reserve of £1.5m to be funded from the following re-allocation of reserves:-

Table 2: Covid-19 Support Reserve

Year	Contribution £'000
Budget Strategy Reserve	1,250
General Fund Working Balance	250
Total Covid-19 Support Reserve *1	1,500

*1 - The express purpose of the reserve is to meet the net financial cost of Covid-19 on the Council; it is not intended to be used to fund any measures to support the recovery effort.

- In line with the proposal above, it is assumed at this stage that the Minimum Working Balance (the General Fund Balance) will be reduced to £750k reflecting a contribution of £250k to the Covid Support Reserve. Whilst the General Fund Balance will continue to be reviewed annually, the Medium Term Financial Plan assumes that an annual contribution will be made to the General Fund Balance to restore it to £1m by 2023/24;
 - certain earmarked reserves (e.g. VAT Partial Exemption Reserve, Insurance Reserve) are held as part of the Council's management of risks associated with related areas of activity. These are reviewed annually, both as part of the closure of the Council's accounts and also as part of the budget setting process.
18. It is stressed that whilst using 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.

Budget 2020/21 (and the estimated financial impact of Covid-19)

19. The Council's Revenue Budget for 2020/21 was agreed at the meeting of Council in February 2020.

Review of Budget Strategy 2020/21

20. The extent to which the budget strategy varied from the final approved budget for the year has a bearing on the starting position for this update of the medium-term financial plan. A comparison is provided in Table 3 below and provides some context for the Council's medium-term financial position set out further in this report:-

Table 3: Review of Budget Strategy 2020/21

Strategy Area	Proposed	Agreed	Financial Impact £000
Council Tax	Increase in Council Tax 1.99%	Increase in Council Tax of 1.99%	NIL
Budget Growth	Growth of £176k	Growth of £371k	+£195k
Budget Savings	Savings of £194k	Savings of £75k	+£119k
Net Impact			+£314k
Use of Reserves	Cont to Reserves £53m	Use of Reserves £261k	(314k)
Balanced Budget			-

21. As Table 3 indicates, in comparison to the proposed budget strategy, the decisions taken to agree the final budget for 2020/21 resulted in a budgeted increase in costs of £0.3m which was met by an increase in the use of reserves. As Councillors consider the budget going forward, it should be noted that reserves are a finite resource and as such they cannot be relied on to meet the ongoing cost burden of these decisions indefinitely.

Estimated Financial Impact of Covid-19

22. The Council's budget monitoring processes would normally start operating from the end of quarter 1 of the financial year (in this case, June 2020). However, given the impact of Covid-19 coupled with a requirement to report to Government on the estimated financial impact on the Council of the Pandemic, work has been undertaken during April and May 2020 to assess the potential impact on the Council's budget for 2020/21.
23. On the basis of the Council's submission to Government in May 2020, it is estimated that the net additional cost to the Council for the full year 2020/21 is c£3.3m. This is offset by the Government grant received to date for Covid-19 which is £981k. An analysis of this is provided at **Appendix B** and summarised in Table 4 below:-

Table 4: Estimated Net Financial Impact of Covid-19

	£000
Additional Costs	1,376
Loss of Income – Sales, Fees and Charges	1,168
Loss of Income – Collection Fund	
- Share of Business Rates	394
- Share of Council Tax	321
Total Estimated Impact of Covid-19	3,258
Government Grant	(981)
Total Estimated Net Impact of Covid-19	2,277

24. It should be noted that estimating the financial impact of Covid-19 at this stage is incredibly difficult, particularly in the absence of much actual data on which to base any estimates. Nevertheless, whilst acknowledging that these are early estimates of the net financial impact of Covid-19 and that further work will need to be undertaken to refine them once actual details of income and expenditure are known, in the absence of any further funding from the Government, the Council needs to consider taking action to mitigate the impact of this additional net expenditure. To that end, it is proposed to:-
- Absorb the impact of the estimated shortfall in Council and Business Rates (totaling £715k) into the respective Collection Funds; and
 - establish a Covid-19 Support Reserve totaling £1.5m as set out above; and
25. It must be stressed that the Covid-19 Support Reserve is being created as a prudent measure to provide resource cover for the potential financial impact of Covid-19 and on the basis that the Government does not provide additional funding to meet the full cost of the impact of Covid-19 on the Council. ***Earmarking reserves for this purpose has a direct impact on the Council's budget strategy for the period 2021/24 because it means reducing the Council's Base Budget is the only option to achieve a balanced budget.***
26. It is expected that normal budget monitoring cycle will commence in July 2020 (for the first quarter ending 30th June) where an updated analysis of the financial impact of Covid-19 will be provided.

Medium Term Financial Plan 2021/24

27. Work has been ongoing to update and roll forward the Council's MTFP for the period 2021/24. This takes into consideration decisions on the budget for 2020/21 and the outcome of this work forms the basis of this report.
28. Table 5 below provides a summary of the MTFP 2021/24 whilst a more detailed analysis is provided at [Appendix C](#) (which, at this stage, excludes any use of reserves):-

Table 5: Medium Term Financial Plan 2018/21 (No Use of Reserves)

	Approved Budget 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000	Forecast 2023/24 £000
Net Expenditure	13,530	14,652	15,206	16,203
<u>Less</u> Retained Business Rates	(4,131)	(4,214)	(4,298)	(4,384)
<u>Less</u> Revenue Support Grant	(1,164)	(1,187)	(1,211)	(1,235)
Fiscal "Gap"	8,235	9,251	9,697	10,584
Collection Fund Surplus	(1,410)	(550)	(450)	(450)
Council Tax Income	(6,565)	(6,746)	(6,931)	(7,122)
Local Funding "Gap"	261	1,955	2,315	3,012

Source: Appendix C

29. Table 5 shows, **before considering the use of reserves**, a projected deficit on the Council's MTFP of £3.0m by 2021/24 with the most immediate issue being a budget shortfall in 2020/21 of £1.9m **assuming no action is taken to deal with this shortfall.**

30. 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 D](#) and the Policy and Resources Committee is asked to note these at this stage.

The Financial Strategy 2021/24

31. The Council has an established Financial Strategy which remains relevant albeit as challenging despite the impact of Covid-19. It 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 continue to 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 delivery 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.
32. Over the last year, the Council has also made provision within the Capital Programme for investment in assets for a commercial return guided by a Property Investment Strategy. Given the impact of Covid-19 on the commercial property market, recent proposals by the Government to limit Council's involvement in commercial property investment and increased costs of PWLB debt, it is unlikely that there will be many, if any, opportunities for the Council to exploit this.
33. The following narrative provides more detail on each of these approaches.

Growing

Growth in Retained Business Rates Income

34. The current Business Rates Retention Scheme continues to offer 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.
35. To put this into some context, the Council's business rates tax base is currently £52.8m. 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£307k (adopting the current standard NNDR multiplier of 49.1p and assuming no other changes such as the award of reliefs).
36. There is, therefore, a clear link here with a strategic approach to economic growth and regeneration within the Borough. Examples of the work undertaken to date include plans to extend the existing Lomeshaye Industrial Estate and the redevelopment of Northlight. Phase 1 of the Extension has been agreed and is underway and, whilst not within the Council's control, planning consent has been given for Phase 2 of the Extension. The redevelopment of Northlight is well progressed with Lancashire Adult Learning, the Leisure Box and In-Situ in occupancy. The first phase of the residential development of 36 units is almost complete.
37. As with other aspects of the Council's activity, however, the impact of Covid-19 on business rates is expected to be significant. In direct terms, collection of business rates income may be affected and this will need to be carefully monitored.
38. Indirectly, the economic shock from Covid-19 will, inevitably, result in business closures and, for businesses that survive, growth plans may take longer to deliver than planned. At the time of writing, there has already been an announcement of redundancies at Rolls Royce with the potential for that to have a knock-on effect to Companies in their supply chain. And given the furlough scheme will remain in place until October and with the availability of significant Government support in the short term, the full scale of the impact on the local economy is not likely to be known for some months.
39. It will be important for the Council to engage with business early to understand the impact and to that end, the Council is in discussion with Business Leaders through the Pendle Vision Board and speaking directly to businesses to gain intelligence on this matter and to ensure that, where it is possible to do, appropriate business support is identified.

Pooling of Business Rates

40. The Council has remained a member of the Lancashire Business Rates pool for 2020/21. The benefit of the pooling arrangement is that the Council retains the levy on business rates growth which otherwise would be paid to the Government; the downside risk is that as an individual Council any protection afforded by Government's safety net mechanism is foregone. This emphasises the importance of effective monitoring and reserve provisioning to mitigate this risk and the processes to do this are in place.

Growth in Council Tax Income

41. 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. 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 Officers recommendation.
42. 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. Indeed, partly due to this work and up until the Covid-19 Pandemic, there had been a notable upturn in the number of new developments coming forward for consideration by the Council. What impact Covid-19 will have on the development of new housing remains to be seen.
43. The target Collection Rate for Council Tax in 2019/20 is 96.5% of in-year Council Tax due. As indicated above, given the impact of Covid-19 is likely to have on local residents, achieving this collection rate may prove to be challenging. Looking ahead, consideration will be given to the level of collection as part of the Council Tax Setting process.

Charging

44. 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. Again, this is another area where consideration of the impact of Covid-19 will have to be given.

Saving

45. Whilst the Business Rate Retention Scheme does offer some opportunity to increase the Council's income, any growth in the near term is unlikely 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.
46. 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

47. This is a more recent theme within the Financial 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.

48. 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 2023/24

49. The Council has a good track record of delivering savings since 2010, from when savings totaling c£9m have been realised. Many of these savings have been achieved whilst minimising the impact on street level services which Councillors identified as a priority.
50. Dealing with the impact of Covid-19 on the Council's finances is the immediate priority hence the actions set out in this report. Against this backdrop, and the ongoing requirement for significant savings, the ability to deliver further efficiencies is increasingly 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.
51. 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;
 - 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;
 - establishing whether any of the changes made in response to the Covid-19 Pandemic can be maintained thereby reducing the cost of running the Council. For example, the use of virtual and paperless meetings and homeworking to reduce accommodation costs;
 - 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. This will mean considering in detail the recommendations arising from the Strategic Review of Leisure Services undertaken in the last financial year;
 - 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'). Again, the Covid-19 Pandemic has 'forced' the delivery of services virtually and the opportunity needs to be taken to retain this where possible;
 - 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. In particular, noting the increase in the number of Universal Credit claimants, and the corresponding reduction in Housing Benefit claimants, further work needs to be undertaken to establish the impact on the unitary charge payment to Liberata;
 - undertaking a review of service standards to ensure that the Council continues deliver good services but at the least cost;
 - despite potentially limited opportunities as referred to above, keeping under review opportunities to use the a Property Investment Strategy;
 - 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.
52. The Committee should note that this is not an exhaustive list. Nevertheless, work to develop these options will commence in the near future and will be subject to more detailed consideration with any proposals reported to Councillors at the appropriate time. Ideally, as has been the case in the previous budget rounds, budget savings proposals will be brought forward to each meeting of Council for consideration. To this end, it is proposed that options for savings be submitted to meetings of Council in October/November with final decisions on the budget to be taken in February 2021.
53. And recognising the constructive way in which the Councillors from all Political Groups worked together on the development of budget proposals for 2020/21, the Committee is asked to re-appoint a Cross-party Budget Working Group of 8 Councillors (3 Con: 3 Lab: 2 Lib Dem) to develop the options for savings for 2021/22 (giving consideration where necessary to options over the MTFP period).

Strategy for Using Reserves and Balances 2021/24

54. As Councillors know, balances and reserves are a finite resource which cannot be relied on indefinitely to balance the budget. In support of the above strategy, and for the purposes of this update of the MTFP, the current strategy is assumed:-
- *£1.5m will be earmarked to meet the financial impact of Covid-19 in 2020/21 in the event no further funding is made available from the Government;*
 - *the Minimum Working Balance will reduce to £750k to provide £250k for the Covid-19 Support Reserve. However, this will be 'repaid' to the General Fund Balance over the next 3 years (or sooner if possible) so that the balance is restored to £1.0m by no later than 2023/24.*

- *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 £650k will be used from the Budget Support Reserve over the next three years This means that on current projections, the Council will have all but fully used the balance available on the Budget Support Reserve as at 31/03/2022.*

55. Table 6 below shows the impact of the applying this Strategy on the Council's Medium Term Financial Plan.

Table 6: 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
Local Funding "Gap" (per Table 5 above)	261	1,955	2,315	3,012
Estimated Impact of Covid-19	1,500	-	-	-
Revised Local Funding "Gap"	1,761	1,955	2,315	3,012
Use of Budget Support Reserve	(714)	(650)	-	-
Covid-19 Support Reserve	(1,500)	-	-	-
Use of Specific Reserves	453	(344)	(250)	-
Contribution to General Fund Balance	-	50	100	100
Total Use of Reserves	(261)	(944)	(150)	100
Residual Funding "Gap"	-	1,011	2,165	3,112
Year on Year Savings Required	-	1,011	1,154	947

56. Over recent years the Council has suffered a significant reduction in funding but has been able to rely on reserves to cushion the impact and reduce the level of in-year savings required. ***As Table 6 indicates, with effect from 2021/22, it is forecast there will no longer be the level of reserves to continue this strategy and the Council's only options are to increase income and/or reduce costs or some mix of the two.***

Draft Budget Strategy 2021/24

57. Looking specifically at the Budget Strategy for **2021/22 to 2023/24**, 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 £650k 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 and restoring the General Fund Balance to £1m;

- No increase in prudential borrowing other than that 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*).

58. Applying this Strategy requires estimated budget savings of c£3.1m (as per Table 6 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. £44k 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

59. The approach to consultation as part of the preparation of the budget for 2021/22 will form part of the work programme and be reported via the Committee but will include consultation with staff and Unions.
60. 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.
61. The Committee is asked to consider whether the Budget Working Group should consider whether any further consultation should be undertaken to inform the Council's development of the budget.

Next Steps

62. As indicated above, this report provides an update on the Council's Medium Term Financial Plan and, given the assumptions outlined above, provides details of the financial envelope the Council should operate within. Table 7 below outlines the timetable for the service and financial planning process going forward culminating with the setting of the Council's Budget and the Council Tax for 2021/22:-

Table 7: Proposed Forward Timetable for the Development of the Budget 2021/22

Date	Action	Status
June	Strategic Plan considered by Policy and Resources Completion of the refresh of Service Plans Update of Medium Term Financial Plan	Completed Completed Completed
July	Government delivers Emergency Budget ? Revenue Outturn Report 2019/20 Capital Outturn Report 2019/20 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 2023/24 – 1 st tranche of savings to Council for decision Spending Review 2020 ?	

Date	Action	Status
Nov	Early drafting of Budget for 2021/22 and Revised Budget for 2020/21	
Nov/Dec	Provisional Local Government Finance Settlement 2021/22	
	P&R Committee considers initial budget submissions (revenue & capital) – 2 nd tranche of savings to Council for decision.	
Dec-Jan 2020	Proposed Draft Budget 2021/22 developed	
Jan	Final Local Government Finance Settlement 2021/22	
Feb	P&R Committee recommends Budget and Council Tax to Council	
Feb	Council sets final Budget and Council Tax for 2021/22	

IMPLICATIONS

Policy

63. 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.
64. 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 £1m for consideration in the development of the budget for 2021/22, and to identify further charging and savings options to deal with the balance of the budget deficit to 2023/24.

Financial

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

Legal

66. 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

67. The risks associated with the Council's Financial Strategy and the Medium Term Financial Plan are as previously set out. The Covid-19 Pandemic has had a significant impact on the Council's activities and continues to do so. This represents a further risk to the financial position of the Council.
68. The key risks for the Council highlighted in this report is the future funding provided by the Government for both revenue and capital spending and the impact of Covid-19. These matters taken together pose a significant business risk to the Council and requires effective action to be taken.

69. 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.
70. 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.
71. The most immediate issue for the Council is develop plans to save £1mk in 2020/21 as well as developing other options which will reduce the Council's net expenditure by £3.1m over the period to 2023/24.
72. 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 Review. The Government has reiterated its commitment to implement a system whereby 75% of rates income is retained locally but much more detailed work and analysis is required before the implications of this for Pendle can be accurately assessed.

Health and Safety

73. 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

74. 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

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

Equality and Diversity

76. 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 2023/24 (provision out-turn pre- Audit).

Appendix B – Estimated Financial Impact of Covid-19 – May 2020

Appendix C – Medium Term Financial Plan 2021/22 to 2023/24

Appendix D – Key Assumptions for Medium Term Financial Plan 2021/22 to 2023/24

LIST OF BACKGROUND PAPERS

Papers held in Financial Services