

REPORT OF: CHIEF EXECUTIVE

TO: POLICY AND RESOURCES COMMITTEE

DATES: 28th OCTOBER 2020

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**BUDGET STRATEGY 2021/22
OUTLINE SAVINGS PROPOSALS**

PURPOSE OF REPORT

1. The purpose of this report is to provide the Policy and Resources Committee with an initial summary of savings to inform a discussion on the Council's Budget Strategy for 2021/22.

RECOMMENDATIONS

2. The Policy and Resources Committee is recommended to:-
 - a) note the Budget Strategy for the period to 2021/24 as set out in the report;
 - b) note the work being undertaken on the development of the savings proposals as set out in the report and comment, as appropriate, on these emerging proposals;
 - c) identify any other areas of the Council's activities for review so that these areas can be reviewed and proposals presented to the Budget Working Group for consideration;
 - d) give consideration to what, if any, further consultation the Council should undertake with residents on the emerging and any other budget proposals;
 - e) request the Budget Working Group to develop a set of proposals that can be considered by the Policy and Resources Committee at its meeting in December 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. At the meeting of the Policy and Resources Committee on 25th June 2020, Councillors considered a report which provided an update to the Council's Financial Strategy and Medium Term Financial Plan (MTFP). A further review of the MTFP has been undertaken since then and is summarised in the table below:-

Table 1: Medium Term Financial Plan 2021/24

	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)	(500)	(450)	(450)
Council Tax Income	(6,565)	(6,746)	(6,931)	(7,122)
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"	-	1,061	2,165	3,112
Year on Year Savings Required	-	1,061	1,154	947

5. Table 1 shows that after **considering the use of reserves**, a projected deficit on the Council's MTFP of £3.1m by 2021/24 with the most immediate issue being a budget shortfall in 2020/21 of £1.1m **assuming no action is taken to deal with this shortfall**. This is an increase of £50k following a review of the assumptions for Council Tax collection in the current year.
6. Acknowledging this shortfall in funding and the need to take action, Councillors resolved amongst other matters to:-
- f) *agree to retain the cross-party Budget Working Group and request that it:*
- commences the detailed work required on the main areas proposed for review in the current year as outlined in paragraph 57 of this report;*
 - 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;*
 - 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;*

7. The Budget Working Group met during August and undertook an initial review of proposals from the Council's Management Team.
8. The purpose of this report is to provide an update on the development of proposals referred to in (f)(ii) above. Councillors should note that the reference to the 'main areas proposed for review' in (f)(i) above refers to the following areas:-
 - 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, 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.

Impact of Covid-19

9. In the light of the continuing impact of Covid-19, a further detailed review of the Medium Term Financial Plan will be undertaken during November. This will take into considered the recent work undertaken on the mid-year Budget Monitoring exercise which is reported elsewhere on the Agenda for this meeting. It is likely that the funding deficit reported above may change as a consequence of this review.
10. It is worth noting that, following the agreement with Government for Lancashire to move in Tier 3 of the Local Covid Alert Levels: Vey High, the Government has given an assurance that any authority in this Tier will not be put in a position where they are unable to balance their budget in the current financial year (2020/21) or set a legal budget next year. Precisely what this means has still to be confirmed but it would suggest that the Government will meet the financial impact of the cost of Covid-19 on the Council's budget. Further clarification is being sought.

Draft Budget Strategy 2021/24

11. Subject to the more detailed review of the Medium Term Financial Plan referred to above, to reiterate 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 in the report to the Policy and Resources Committee on 25th June 2020;
 - 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*).

12. Applying this Strategy requires estimated budget savings of c£3.1m (as per Table 1 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.***

Emerging Budget Proposals 2021/22

13. In the context of the Strategy set out above, the narrative below provides some additional information on the emerging proposals for balancing the Council's budget in the period 2021/24.

Growing

14. The Council's Medium Term Financial Plan currently assumes £200,000 contribution from the Council Tax Collection Fund and £300,000 from the Business Rates Collection Fund.
15. Previously, it was assumed that a further contribution of £100,000 from each Collection Fund will be made to support the budget in 2021/22. A review of both the collection of Council Tax and Business Rates at 30th September 2020 indicate that collection is lower than expected – 1.37% on Business Rates and 1.98% on Council Tax – when compared to last year. In view of this, it has been assumed that there will be no additional surplus on both accounts. Indeed, the current assumption in the Medium Term Financial Plan will remain under review and may need to change as the year progresses.

Charging

16. A report elsewhere on the Agenda for this meeting provides details of the outcome of the Annual Income Review.
17. Changes in fees and charges are an important part of the Council's Budget Strategy and, as proposed, would yield estimated additional income of £xxx,xxx. In the event that any of the proposals is not accepted, this will require additional savings to be found.

Saving

18. Given the impact of Covid-19 on other work, it has not been possible to fully develop savings proposals at this stage. However, the narrative below provides an indication of progress is provided to inform Councillors discussions on these matters.
- ***Organisational Review*** – The target savings from a review of the Council's organizational structure is £200,000. An initial review of the structure has identified vacant posts in Environmental Services and Housing, Health and Engineering which can be deleted to deliver savings. As has been the case in previous years, applications for voluntary redundancy will be sought in the first instance; subject to what applications are made, it is not possible at this stage to say whether it is possible to avoid compulsory redundancies to achieve the target savings;

- **Grounds Maintenance in Parks** – The target savings from this area is £180,000. A review of the income being generated from Town and Parish Councils indicates income of c£180,000 is being generated. This suggests that further work is required to persuade Town and Parish Councils to pay for grounds maintenance in their area or the Council needs to take action to reduce the costs of the service.

Discussions are taking place with the relevant Town and Parish Councils on this but to the extent that insufficient additional income is generated, the Council will need to consider taking action to reduce the ongoing operating costs of the Service;

- **Review of Contract/Performance Standards** – During July 2020, the Council issued a Change Control Notice (CCN) to Liberata seeking a reduction in the Unitary Charge payment for the Housing Benefits Service. The CCN has been issued in response to a significant reduction in the number of new Housing Benefit claims arising from the introduction of Universal Credit. Discussions on this matter are ongoing with Liberata;
- **Reviewing the opening hours of Number One Market Street** – The reception at Number One Market Street has been closed since the beginning of lockdown. It is considered that this represents an opportunity to review the opening hours of the reception recognising that a significant number of service requests are now being dealt with either online or by telephone. Options for this are currently being developed for consideration by Councillors in due course.
- **Rationalisation of Telephones/Related IT** – the Council is in the process of reviewing its telephony provision given the age of the current system and the way in which technology has evolved over recent years. This also coincides with changes in working practices with an expectation that, adopting the Agile Working Policy, there is likely to be more homeworking;
- **Review of Markets Functions** – whilst further work is necessary to develop this proposal, it is proposed to review the operation of the Nelson Indoor Market from April 2021. As Councillors will know, the Nelson Indoor Market has been operating at a cost to the Council of c£90,000 for a number of years; despite repeated attempts to attract new traders, there has been a continual decline in the number of active traders and with the prospect of investment in the Town from the Future High Street Fund and the Nelson Town Deal, there is an opportunity to consider what the retail offer in Nelson will be in the future;
- **Review of the ACE Centre** – As Councillors will be aware, the ACE Centre has been closed since the Country went into lockdown as a consequence of the Covid-19 Pandemic. In view of the Council's financial position, it is proposed to use this as an opportunity to consider the future of the ACE Centre particularly with a view to identifying ways of operating the Centre without subsidy. As Councillors will know, Nelson has the opportunity to develop a Town Investment Plan under the Government's Town Deal Programme. This presents an ideal opportunity to consider options for the use of the ACE Centre as part of an integrated strategy with the Town Centre.

19. In addition to these areas of activity, the following matters are also being developed:-

- a review of discretionary expenditure is to be undertaken to determine whether any of these areas of spending can be changed, reduced or stopped;

- reflecting on the changes in activity with the onset of the Pandemic, further work is to be undertaken to understand the implications on the Council's budget and how this might feature as part of either costs reductions or income generation. For example, the cost of travel allowances has reduced as a consequence of more efficient home working, printing costs have reduced with fewer staff in the office and greater use of technology;
- it has been agreed to meet with Town and Parish Councils again to establish what other areas of activity they might be interested in delivering in place of the Council;
- consideration is being given to various technical (such as provisions, Minimum Revenue Provision, Housing Benefit Subsidy) to determine what scope there is to reduce costs to the Council (at least in the short term).

20. Further work on these matters will be undertaken with a view to bringing forward proposals to the Policy and Resources Committee via the Budget Working Group in due course.

Budget Consultation

21. The approach to consultation as part of the preparation of the budget for 2021/22 will as in previous years form part of the work programme and be reported via the Policy and Resources Committee but will include consultation with staff and Unions.

22. 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 the Policy & Resources 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 Policy and Resources Committee.

23. That aside, the Policy and Resources Committee is requested to consider whether any further consultation should be undertaken to inform the Council's development of the budget.

Next Steps

24. 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	Revenue Outturn Report 2019/20 Capital Outturn Report 2019/20 Review level of Reserves post 2019/20 Out-turn	Completed Completed Deferred
September	Mid-year review of savings options – report to P&R Committee	Deferred
October	Refine Medium Term Financial Plan to 2023/24 – 1 st tranche of	This report

Date	Action	Status
	savings to Council for decision	
	Spending Review 2020 ?	
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

25. 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.

Financial

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

Legal

27. 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

28. 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.
29. 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.

30. 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.
31. 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.
32. The most immediate issue for the Council is develop plans to save £1.1m in 2021/22 as well as developing other options which will reduce the Council's net expenditure by £3.1m over the period to 2023/24.
33. 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

34. 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

35. 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

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

Equality and Diversity

37. 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

None

LIST OF BACKGROUND PAPERS

Papers held in Financial Services