

REPORT OF: CHIEF EXECUTIVE

TO: POLICY AND RESOURCES COMMITTEE

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GENERAL FUND REVENUE BUDGET 2021/22

PURPOSE OF REPORT

1. The purpose of this report is to:-
 - a) obtain approval for the Revised Budget for 2020/21 and to present the **draft** Base Budget for 2021/22 for initial consideration;
 - b) provide an update on the key issues relating to the development of the Budget for 2021/22 (and the medium term financial plan); and
 - c) request the Policy and Resources Committee give consideration to the development of a budget for 2021/22 and for the Medium-term Financial Plan period (to 2023/24).

RECOMMENDATIONS

2. The Policy and Resources Committee is recommended to:-
 - a) agree, in view of the seriousness of the Council's forecast financial position over the medium term, that this report be shared with all Councillors so that they are fully aware of the position;
 - b) approve the Revised Budget for 2020/21 including the payment of up to £1m additional funding to the Pendle Leisure Trust to reflect the financial impact of Covid-19 (as set out in the report);
 - c) note the issues arising from the provisional Local Government Finance Settlement for 2021/22 and the response to the related consultation as provided at [Appendix A](#);
 - d) note the draft Base Budget for 2021/22 the forecast Medium Term Financial Plan and the current assumptions underpinning both;
 - e) note the financial planning assumption of a Band D Council Tax increase of 1.99% in accordance with the Council Tax Referendum Principles included in the Provisional Local Government Finance Settlement for 2021/22;

- f) as part of the development of the Policy and Resources Committee's Budget Strategy for 2021/22:
 - i) note the outline savings proposals shown at [Appendix H](#) along with the emerging budget strategy for 2021/22 and that the Management Team's budget proposal for the year will be presented at the meeting of this Committee in February;
 - ii) in the context of the Council's forecast budget deficit over the medium term, undertake a review of the draft Base Budget for 2021/22 to identify any areas where further savings proposals might be brought forward for consideration as part of the budget process;
- g) note the timetable for the remainder of the budget process as set out in the report.

REASONS FOR RECOMMENDATIONS

- 3. To continue with the implementation of the Council's Financial Strategy and to inform the development of the Council's budget for 2021/22.

ISSUE

Background

- 4. This report focuses primarily on the Council's revised budget for 2020/21 and the draft base budget for 2021/22. Information is also provided on the Medium Term Financial Plan for 2021/24 to allow the Policy and Resources Committee to consider budgetary decisions for next year in the context of the Council's projected medium term financial position. This is crucial given the funding reductions faced by the Council and the need for the Policy and Resources Committee to continue taking action to significantly reduce the Council's net expenditure.
- 5. The report sets out the issues associated with the budget for 2021/22 and the medium term for the Policy and Resources Committee to consider subject to the Government's final confirmation of the Local Governance Finance Settlement and completion of detailed work on the Council's budgets.
- 6. In recent years the Provisional Local Government Finance Settlement has been published in the run up to Christmas and more recently the 2018 Hudson Review recommended a date of 5th December each year for publication. Despite this, given the impact of Covid-19 leading to a delayed announcement of the planned Spending Review (which, itself was limited to Departmental spending plans for 2021/22 only), the announcement on the Provisional Settlement was delayed until 17th December 2020 hence the later than usual publication of this report.
- 7. As Councillors will be aware, the one-year Spending Review for 2021/22 is the second single year spending review in succession and due primarily to the impact of Covid-19. The Government has indicated that a full Comprehensive Spending Review will take place in 2021. A summary of the Spending Review for 2021/22 is provided below.
- 8. The other key issue affecting both the Revised Budget for 2020/21 and the draft Budget for 2021/22 is the continuing impact of the Covid-19 Pandemic on the Council's financial position. As Councillors might expect, this matter is considered further in this report.

Spending Review 2021

9. As Councillors will be aware, the Government had intended to undertake a Comprehensive Spending Review for the period 2021/24, setting out the Government's Departmental spending plans over that three year period. However, the impact of Covid-19 on the Government's finances and the continuing uncertainty with the Pandemic led the Government to announce a single-year Spending Review for 2021/22 in late November 2020 with the expectation that a full Spending Review will take place next year.
10. Given the late announcement of the Spending Review 2021/22 and work on other matters, it has not been possible to provide the Committee with an update on the key matters arising from the Spending Review announcement. In view of that, below is a summary of the key issues as they relate to local authorities:-
 - a one year only spending review due to the impact of Covid-19 and the uncertainty as a result of delays to the UK's withdrawal from the EU (Brexit). The Comprehensive Spending Review is now expected to take place in Autumn 2021;
 - an overall increase in Local Government funding of 4.5% but with the allocation distribution to be confirmed (in the Provisional Local Government Finance Settlement referred to below);
 - a further delay to the implementation of the Fair Funding Review and the move to 75% Business Rates Retention, which is moved now from April 2021 to April 2022, again with the detailed impact on this Council being unknown;
 - to support businesses with their recovery from Covid-19, the Business Rates multiplier will also be frozen in 2021/22 (and Council's will be compensated for this);
 - an increase in Revenue Support Grant in line with inflation;
 - a referendum limit applicable to this Council in terms of Council Tax raising powers of 2%;
 - maintaining the existing New Homes Bonus Scheme for a further year with no new legacy payments and with a commitment to consult on the Scheme early in the new year with a view to implementing reforms from 2022/23;
 - to support local authorities response to Covid-19 Pressures in 2021/22, additional funding support will be provided as follows:-
 - an additional £1.55bn of grant funding to local authorities to meet general Covid-19 pressures;
 - £670m of additional grant funding to meet the anticipated additional cost of Local Council Tax Support;
 - a further £762m to compensate Councils for 75% of irrecoverable losses of Council Tax and Business Rates in 2020/21 that would otherwise need to be funded through Council budgets in 2021/22;
 - an extension to the Covid-19 Sales, Fees and Charges Reimbursement Scheme for the first quarter of 2021/22.

Provisional Local Government Finance Settlement 2021/22

11. The Provisional Local Government Finance Settlement for 2021/22 was published on 17th December 2020. As is normally the case, following publication of the Settlement there is a period allowed for written representations. The deadline for submitting these representations was 16th January 2021 and attached at [Appendix A](#) is the Council's response to the consultation.
12. The Provisional Settlement represents the Government's view of the Council's funding position for 2021/22 only with no information provided for subsequent years. In particular, the Provisional Settlement provides the Government's assessment of the Council's Core Spending Power comprising funding such as Business Rates retained, Revenue Support Grant, New Homes Bonus and Council Tax.
13. For both Revenue Support Grant and New Homes Bonus, the amounts given in the Settlement reflect the actual grants which will be paid to the Council. The amount of Business Rates Retained and Council Tax reflect the Government's assessment of what the Council might raise; in both cases, the actual amounts will be subject to determination by the Council according to local assessment and/or decision making (as well as being influenced by local factors).
14. Table 1 below provides a summary of the Council's funding position as set out in the Provisional Financial Settlement compared to the position included in the Council's Medium Term Financial Plan. As the table indicates, the Provisional Settlement is broadly in line with the assumptions in the Medium Term Financial Plan:-

Table 1: Summary of Provisional Financial Settlement

	MTFP 2021/22 £000	Provisional Settlement 2021/22 £000	Variance £000	Variance %
Individual Authority Business Rates	7.603	7.460	(0.143)	(1.9%)
Tariff Payable	(3.389)	(3.389)	0.000	(0.0%)
Baseline Funding Assessment	4.214	4.071	(0.143)	(3.4%)
Revenue Support Grant	1.187	1.170	(0.017)	(1.4%)
Settlement Funding Assessment	5.401	5.241	(0.160)	(3.0%)
Lower Tier Service Grant	-	0.173	0.173	100.0%
Estimated Funding Level	5.401	5.414	0.013	0.3%

Business Rates Retention (and Pooling)

15. The Provisional Settlement indicates that the estimated amount of Business Rates Retained (otherwise referred to as the Baseline Funding Assessment) is £4.071m. This is the Government's estimate of share of business rates collected less the tariff payable to Government and contrasts with the assumption of Business Rates Retained in the Medium Term Financial Plan for 2020/21 of £4.214m. The variance of £143k reflects largely the Government's decision to freeze the Business Rates Multiplier in 2021/22 as part of their package to support businesses to recover from Covid-19. The Government has indicated that Councils will be reimbursed for this decision and funding of £163k will be paid to the Council in 2021/22 in the form of a s31 Grant.

16. However, following the release of guidance in late December, which the Council needs to undertake an accurate assessment of its share of business rates income for 2021/22, work is now underway on this detailed assessment. This will form the basis of the amounts used in the Budget for 2021/22 as it will more accurately reflect local circumstances (in relation to matters such as the provision for doubtful debts, provision for appeals and the rate of collection).
17. **So, whilst the Government's assessment would suggest net reduction resources of £143k for 2021/22**, it is necessary to complete the detailed assessment referred to above to confirm the estimated funding position based on local circumstances. This work will be concluded by the end of January 2021 as it forms the basis of a statistical return required by the Government.
18. Part of this detailed assessment of the Council's share of business rates will be the determination of the amounts receivable as s31 Grant. This grant is a reimbursement of business rates income foregone as a result of Government policy decisions to provide various business rates discounts for, for example, small businesses, retail properties etc. The Council's Medium Term Financial Plan assumes that the Council will receive £1.345m, being a £ for £ reimbursement however, this amount will only be known once the assessment of the Council's Business Rates position is undertaken.
19. As previously highlighted, in considering Business Rates Retention, a key issue for the Council is the continuation of the Lancashire Business Rates Pool in 2020/21. The Provisional Settlement confirms that, subject to there being no further changes in the composition of the Pool Members, the Lancashire Business Rates Pool will operate in 2021/22 on the normal 50% Business Rate Retention Scheme.
20. The benefits of pooling are two-fold:-
- 40% of any growth above a set baseline is retained by the Council;
 - there is 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.
21. Whilst Councils have to date indicated their intention to retain the Pool, this will depend on their assessment of their own position with Business Rates in 2021/22. **The continuation of the Pool is not certain at this stage.**

Revenue Support Grant

22. Revenue Support Grant (RSG) for 2021/22 will be £1.171m, being the proxy RSG for 2020/21 uprated by the Consumer Price Index (CPI). ***This is broadly in line with what is assumed in the MTFP.***

Lower Tier Service Grant

23. New to this year's Settlement is the payment of a Lower Tier Services Grant (LTSG). The LTSG is a payment to Councils that provide Lower Tier Services (Shire District Councils, Unitary Councils and Metropolitan District Council). This grant includes funding to ensure that no Council has an annual reduction in their Core Spending Power. The Council's allocation of this funding is £173k.

New Homes Bonus

24. This has been a significant source of revenue income for the Council in recent years; at its height, the Council received £1.0m in 2017/18. However, since the Bonus regime was revised with the introduction of a minimum threshold for eligible housing provision, the value of the Bonus to Pendle has declined markedly over the Plan period with £438k budgeted in the current year.
25. As part of the current year's financial settlement, the Government made a 1-year only allocation (£184k) of New Homes Bonus reflecting the growth in new housing and reduction in the number of empty homes in the period between October 2018 and October 2019. This reflected a change in the Scheme where the same payment would normally be repeated for the following three years. This change was made in anticipation of a review of the New Homes Bonus Scheme and, in particular, the way in which the Government would seek to reward local authorities for new house building. Again, due to Covid-19, that review has not yet taken place hence the Government's decision to make a further 1-year only allocation for 2021/22.
26. The Council's Medium Term Financial Plan included an estimate of £156k for New Homes Bonus for 2021/22 comprising legacy payments from previous years only. No new funding was assumed from 2021/22 onwards.
27. According to the Provisional Settlement, the Council will receive additional New Homes Bonus payment of £169k in 2021/22 comprising the legacy payments of £156k and £13k new funding. **This is an additional £13k when compared to the assumption in the Medium Term Financial Plan.** As in the current year, the new funding (£13k) in 2021/22 will be made available for a single year only with no payments proposed for the following three years as has been the case previously.
28. In announcing the New Homes Bonus as part of the Provisional Settlement, the Secretary of State for MHCLG reiterated their commitment to the review of the New Homes Bonus Scheme. As indicated previously, the Government will consult on a new method of incentivising housing growth in the New Year with a view to implementing any reforms from 2022/23. What this is, how it will work and what the impact on the Council will be is not possible to say at this stage pending the proposed consultation.

Covid-19 Financial Support

29. Recognising the need to provide Council's with financial support for the continuing impact of Covid-19 in 2021/22, the Government has indicated that the Council will receive the following financial support for 2021/22:-
 - a) **Expenditure Pressures Grant** – the Council's share of the £1.55bn to be made available to Councils has been provisionally set at £633k. Whilst the grant is unringfenced, priority areas for this funding include household waste collections, shielding the clinically extremely vulnerable, homelessness and rough sleeping, domestic abuse, managing excess deaths, support for re-opening the country and the additional cost associated with the local elections in May 2021. The guidance from Government makes it clear that Councils should plan on the basis of not receiving any additional funding for these pressures.

For the purposes of budgeting in 2021/22, this additional funding has provisionally been earmarked for shortfalls in income (£153k), additional costs of Elections (£80k) and additional funding for the Pendle Leisure Trust (£400k).

- b) **Local Council Tax Support Grant** – the Council's share of the £670m for the anticipated additional cost of Council Tax Support is £236k. This is reflected in the Council's Budget for 2021/22 and counters the reduction in the Council's Taxbase which has arisen due to the anticipated additional cost of the Council Tax Support in 2021/22;
- c) **Local Tax Income Guarantee for 2020/21** – technically, this relates to the irrecoverable Council Tax and Business Rates income from the current financial year. However, the grant for this will not be paid until the next financial year and will cover 75% of losses. It is expected this payment will be made to the appropriate Collection Fund Account and will be distributed to Preceptors. At this stage, it has not been possible to estimate the likely grant receivable and, for the purposes of the Council's Budget 2021/22, it is proposed to treat any grant as windfall income in the year;
- d) **Sales, Fees and Charges Scheme** – the Government has confirmed that the Sales, Fees and Charges Scheme, which reimburses Councils for 75% of irrecoverable income from sales, fees and charges, will operate for the first 3 months of the 2021/22 financial year. Again, it is not possible to calculate the impact of this and therefore any grant reimbursement will be treated as windfall income in 2021/22.

30. It should be noted that the Covid-19 financial support referred to above is subject to views from local government before final confirmation.

Revised Budget 2020/21

31. The Policy and Resources Committee receives periodic reports during the year providing details of the budget monitoring that has been undertaken. Table 2 below provides a summary of the Revised Budget for 2020/21 with a detailed analysis provided at [Appendix B](#). This indicates that, in comparison to the approved budget for the year, it is estimated that there will be an underspend of £339k for the year.

Table 2: Revised Budget 2020/21

	Approved Budget 2020/21 £000	Revised Budget 2020/21 £000	Variance £000	Variance %
Net Cost of Services	14,181	15,614	1,434	10.1%
Corporate Income/Expenditure	(1,940)	(5,432)	(3,493)	180.1%
Net Expenditure	12,241	10,182	(2,059)	(16.8%)
Use of Specific Reserves	2,928	4,648	1,720	58.8%
Net Expenditure	15,169	14,830	(339)	(2.2%)
Budget Requirement	13,269	13,269	-	-
Use of Budget Support Reserve	1,899	1,560	(339)	(17.8%)

Source: Appendices B and C

32. The key variances between the approved and revised budget which give rise to the projected underspend of £339k are as follows:-
- an anticipated additional payment of up to £1m to the Pendle Leisure Trust, more details of which are provided below;
 - a shortfall in income of £322k from Court Costs associated with Council Tax Recovery. This reflects the suspension Council Tax debt recovery at the beginning of the year recognising the impact of Covid-19 on residents ability to pay Council Tax;

- lower than budgeted income (+£173k) from Trade Waste Collections arising from the suspension a of number of collections contracts given the closure (in most cases temporary) of businesses due to Covid-19 lockdowns;
 - again, less than expected income from planning fees (+£155k), partly due to the fall in activity due to Covid-19 but equally a consequence of fewer major planning applications and an increasing number of applications for which no fees are payable;
 - lower than budgeted external interest payments due to delayed borrowing (-£122k);
 - forecast reduction in interest income receivable on short-term surplus cash balances due to the cut in interest rates (+60k);
 - reduced Minimum Revenue Provision (provision for debt repayment) – due to lower capital expenditure in 2019/20 (-£50k);
 - additional s31 Grant of £3.445m for Business Rates Reliefs and Exemptions arising from the package of Covid-19 financial support on Business Rates for businesses. All of this additional funding has been credited to s Business Rates s31 Grant Reserve to be matched to the deficit on the Collection Fund – Business Rates (see below for details);
 - the reversal of the proposed use of £250k from the General Fund Working Balance. In essence, the Working Balance will be maintained at £1m (and not reduced to £750k) as originally planned.
33. An analysis of the major variances (+/- £10,000) is provided at [Appendix B](#). Assuming the underspend of £339k is maintained up to the year end, this will mean that the amount contributed from the Budget Support Reserve to balance the Council's budget for 2020/21 will reduce to £1.560m compared with the approved budget contribution of £1.899m.

Covid-19 Funding

34. Although not explicitly shown in the table above, the Council's budget for 2020/21 has been significantly impacted by Covid-19. As a contribution towards the financial impact of Covid-19 on the Council and to provide business grant support, the Government has paid the following grant funding to the Council:-
- a) £30.756m for the payment of various business support grants. To support businesses in the first lockdown, the Council received £26.432m for the payment of grants. Of this amount, the Council paid £23.128m to eligible businesses with the balance of £3.304m repayable to Government (the Council continues to lobby to retain this funding for further business support). Further sums totaling £4.251m have been paid to the Council for business support following the second national lockdown and the continuing impact of the Tiering restrictions on business;
 - b) £1.587m being a range of grants to meet the specific costs of various matters (testing, tracing, isolation, communications, support of clinically extremely vulnerable etc.) to deal with the Pandemic. Whilst not all of this funding has been used at this stage, it is anticipated it will be defrayed in support of the Council's actions to contain the spread of the disease, both in the current and next financial year; and

- c) £1.990m of general support for expenditure pressures and income losses. Of this amount, a budget of £400k has been set aside to meet Covid-19 related expenditure with the balance used to meet general expenditure and income pressures (including the additional funding for the Pendle Leisure Trust referred to above).
35. As outlined elsewhere in this report, it is not certain for how long the Council will need to continue responding to the impact of the Pandemic. This is largely dependent on the effectiveness of the measures to contain the spread of the disease and the pace at which the vaccination programme will be rolled out. Whilst the Council retains funding to meet Covid-19 costs, lobbying to ensure that the full net costs arising from the impact of the disease on the Council are fully reimbursed.

Pendle Leisure Trust

36. As indicated above, the Revised Budget for 2020/21 assumes an additional payment of up to £1m for the Pendle Leisure Trust. As Councillors will be aware, the Trust has been significantly affected by Covid-19 with the Leisure Centres either closed or subject to restricted opening and/or operating. As a consequence, the Trust's income from both Memberships and Pay-as-you-play activity has been significantly reduced and expected to remain constrained for the remainder of the current financial year. Indeed, the extent and pace with which the Trust's income will recover will remain dependent on the actions taken to control the spread of Covid-19.
37. Councillors may be aware that the Council has the opportunity to bid for additional funding from the National Leisure Recovery Fund (NLRF) to support the Trust's financial recovery. An Expression of Interest was submitted in late December and a full bid submitted earlier this month. On the basis of information provided by NLRF, funding of c£170k may be available. This is not factored into Council's budget and will be treated as windfall income if the Council's bid is successful.
38. The Revised Budget 2020/21 reflects the current best estimate of the likely outturn position for the year. Work will continue on the monitoring of the budget for the remainder of this financial year and any further variations will be reported as part of the periodic monitoring reports.

Base Budget 2021/22

39. Work has been underway in the last few months on the development of the Council's Base Budget for next year. Aside from the general funding pressures faced by the Council, understanding what the continuing impact of Covid-19 will be on the Council's financial position is difficult to assess.
40. Table 3 below provides a summary of the draft base budget for 2021/22 compared with the approved budget in the current year but also taking into account the changes arising from the Provisional Settlement as highlighted earlier in this report:-

Table 3: Base Budget 2021/22

	Approved Budget 2020/21 £000	Base Budget 2021/22 £000	Change £000	Change %
Net Revenue Expenditure	14,181	16,146	1,965	13.9%
Corporate Income and Expenditure	(1,940)	(2,788)	(849)	43.8%
Sub Total	12,241	13,358	1,117	9.1%
Use of Specific Reserves	2,928	(3,769)	(6,697)	(228.7%)
Use of Budget Support Reserve	(1,899)	(650)	1,249	(65.8%)
Net Expenditure	13,269	8,938	(4,331)	(32.6%)

Source: Appendices A and C

41. The main changes in the budget are set out in [Appendix D](#) and the key assumptions on which the budget has been prepared are provided at [Appendix E](#).

Pendle Leisure Trust

42. The table above assumes no change in the grant provided to the Pendle Leisure Trust which is currently £1.445m. As indicated above, an additional £400k has been earmarked for the Trust from the funding made available to the Council by the Government for Covid-19 Expenditure Pressures in 2021/22. This is a provisional allocation pending both the outturn in 2020/21, the outcome of the bid for funding to NLRf (referred to above) and the pace of recovery in the Trust's income.

The Strategy for Reserves and Balances

43. The following strategy for using Balances and Reserves is proposed for 2021/22 onwards:-
- As part of the Revised Budget for 2020/21, and as referred to above, the Minimum Working Balance will be reinstated to £1.0m (and not, as previously set out, reduced to £750k with a view to restating the balance over the next two years);
 - The New Homes Bonus Reserve will continue to be used to support the Council's budget in 2021/22 and 2022/23. An amount of £250k will be used in each year;
 - Committed (Specific) Reserves will be used only for the purposes for which they have been set aside and will be subject to an annual review. The current Medium Term Financial Plan shown below assumes the use of £4.315m of specific reserves in the period to 2022/23 including:-
 - £3.445m from the Business Rates – s31 Grant Reserve used in full in 2021/22 to match the deficit on the Collection Fund – Business Rates brought forward from 2020/21. The deficit in the current year is largely a result of a technical accounting adjustment necessary for funding received by the Government in-year as a contribution towards Covid-19 business support;
 - £609k from the Business Rates Volatility Reserve which will be used in 2022/23 and 2023/24 towards the cost of the Collection Fund – NNDR deficit which, in accordance with the Government guidance, can be recovered in those years.

- In the absence of sufficient savings to achieve a balanced budget, the Budget Support Reserve will be used to support expenditure although it should be acknowledged that this is a finite resource. On the basis of the estimates provided in this report, £650k will be used to support the budget and it is likely that the balance of the Reserve will be exhausted by 2022/23.

44. An analysis of Balances and Reserves is provided at [Appendix F](#). The position set out here reflects the Revised Budget for 2020/21.

Medium Term Financial Plan 2021/24

45. In developing the base budget for 2021/22, work has also been undertaken to update the Medium Term Financial Plan to 2023/24. The assumptions underpinning the development of the Medium Term Financial Plan are set out at [Appendix E](#). Table 4 below provides a summary of the latest financial forecast:-

Table 4: Medium Term Financial Plan 2023/24

	Budget 2021/22 £000	Forecast 2022/23 £000	Forecast 2023/24 £000
Net Revenue Expenditure (after Specific Reserves)	9,588	13,967	15,247
Revenue Support Grant	(1,170)	(1,194)	(1,218)
Retained Business Rates	(4,071)	(4,071)	(4,071)
Council Tax	(6,596)	(6,778)	(6,964)
Collection Fund	3,314	190	190
Total Funding	(8,524)	(11,854)	(12,064)
Local Funding Gap	1,064	2,114	3,183
Use of Budget Support Reserve	(650)	-	-
Cumulative Savings Required	414	2,114	3,183
Previous Year's Savings (assumes all achieved)	-	(414)	(2,114)
In-Year Savings Requirement	414	1,699	1,069

*1 – Forecasts for 2022/23 and 2023/24 assume continuation of s31 Grant for foregone business rates.

46. As the table indicates, on the basis of current assumptions, the budget for 2021/22 is showing a deficit of £414k (with a budget deficit in the medium term of £3.13m). Councillors will note that this is a significant change from the position when it was last reported to the Policy and Resources Committee on 26th September 2019. At that time, the budget deficit for 2020/21 was £894k (with a budget deficit of c£4m over the medium term).
47. The key changes to the Medium Term Financial Plan 2020/23 are summarised at [Appendix G](#) with the most significant change being a reduction in the cost of Pension contributions following the outcome the triennial review of the Lancashire Pension Fund.
48. That said, despite this markedly improved position, it should be noted that the budget for 2021/22 above:-
- reflects Retained Business Rates and s31 Grant (for Business Rates foregone) as per the Medium Term Financial Plan pending the outcome of the detailed assessment of the Council's Business Rates income for 2021/22; and

- assumes a number of one-off funding sources in 2021/22, such as the Local Council Tax Support Grant, that are unlikely to be repeated in subsequent years;
 - is based on the assumption that the grant to the Pendle Leisure Trust remains unchanged. In the context of the Trust's forecast budget for 2020/21, this potentially requires savings of £324k to be identified. Further work is being undertaken with the Trust on this so that, if necessary, recommendations can be made to Councillors.
49. And looking ahead, it should be noted that the estimates of Government Funding for 2022/23 onwards are based on the best information available to date pending the outcome of some potentially significant changes in the system of Local Government funding.
50. As indicated earlier in the report, Councillors will be aware that the Government is committed to undertaking a full Comprehensive Spending Review (CSR) in 2021 which, amongst other matters, will determine the quantum of funding for Local Government over the medium term. This is expected to be followed by the conclusion of the Fair Funding Review and the implementation of changes to the Business Rates Retention Scheme each of which is expected to be implemented from April 2022. Taken together, these could result in significant changes in the Council's future funding.
51. With these matters in mind, there is still a need for the Council to consider what savings can be implemented to deliver a balanced budget over the medium term.

The Financial Strategy for 2021/22 to 2023/24

52. As Table 4 above shows, whilst acknowledging the potentially significant changes to the Local Government funding system from April 2022, there remains a significant deficit on the Council's budget over the medium.
53. The Council has a well-established financial strategy structured around four key themes, namely Growing, Charging, Saving and Stop with each summarised below:
- **Growing** the Council's income using the funding mechanisms now in place for local government, particularly the Business Rate Retention Scheme and, subject to the reforms to the New Homes Bonus Scheme, whatever Scheme is in place to incentivise house building. This means that the Council must continue to actively consider ways in which it can increase income from business and housing growth to ensure that funding for services can be maintained;
 - **Charging** for services, raising income which will mean that it is possible to continue providing services that resident's value. This will mean reviewing the level of fees and charges, reducing the subsidy on some services and considering the introduction of new fees and charges. It may also include reviewing the level of discretionary reliefs / discounts and the local scheme of Council Tax Support;
 - **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 and continually working with partners, including local town and parish councils to sustain local facilities;

- **Stop** – identifying what are no longer priorities for the Council or areas that are deemed lower priority and ceasing to spend resources on them. This theme resulted from the review by the LGA Peer Challenge Team who felt this was essential for the Council to address given the level of savings required. To date, it is not a theme that has actively been developed but the Council's financial position means that, over the life of the Medium Term Financial Plan presented here, it will have to be considered.

Growing

Business Rates Income

54. 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. There is, therefore, a clear link here with a strategic approach to economic growth and regeneration within the Borough.
55. To put this in context, the Council's business rates tax base is currently c£52m. In broad terms, for every £1.5m growth in the Taxbase (equivalent to, say, an additional Superstore), the Council's share of business rate income would increase by c£300k per annum (assuming no other changes) based on 40% local retention.
56. The Council's present strategy for economic development and regeneration focuses on growth in existing businesses within Pendle. Examples of activity to support this strategy include, for example:-
 - participating in the wider economic development planning for Lancashire and Pennine Lancashire including contributing to the development of the Greater Lancashire Plan, the Lancashire Local Industrial Strategy and the Pennine Lancashire Economic Development Plan;
 - working with the Pendle Vision Board to promote and raise the profile of Pendle (and its constituent Towns) as a place to do business and as a means of encouraging networking between business, skills providers and the public sector;
 - continuing to lobby for investment in the Pendle Borough. The most recent examples of this include the Future High Street Fund bid for Nelson which has not been successful and the Nelson Town Deal for which the Nelson Town Improvement Plan is elsewhere on the Agenda for approval. The Government has also signaled that it will be
 - bringing forward additional employment land such as the extension of the existing Lomeshaye Industrial Estate as a strategic employment site, as identified within the Council's Core Strategy. Again, as set out elsewhere on the Agenda for this meeting, progress on the extension of the Estate is now well-advanced;
 - promoting the availability of business support including offers grant funding and other support to new start-up and established businesses through the Boost . This facilitates the growth in those businesses ultimately leading to both more jobs and additional business rates for the Council;
 - supporting businesses in their search for additional business premises and employment land.

57. Recognising the importance of the economic growth, regeneration and development of the Borough not only as a contribution to the growth in business rates income but as a means of supporting the recovery from the impact of the Covid-19 Pandemic, a refresh of the Council's Economic Development Strategy is currently underway and will be presented to the Policy and Resources Committee in the near future.

New Homes Bonus

58. As referred to earlier in this report, in announcing the New Homes Bonus allocations as part of the Provisional Settlement, the Secretary of State for MHCLG also stated that the Government will consult on a new method of incentivising housing growth in the New Year. What this is, how it will work and what the impact on the Council will be is not possible to say at this stage pending the proposed consultation.

Charging

59. The Council reviews its fees and charges annually. The review for 2021/22 was reported to Policy and Resources Committee in October 2020 with a number of proposals agreed. The outcomes from the most recent review have been factored in to the draft budget for next year.
60. A number of other proposals have been considered and deferred by Councillors pending consideration as part of the overall budget. These are again included in the budget options shown at [Appendix H](#) as they may need to be reconsidered.

Saving

61. Whilst the strategies of Growing and Charging offer opportunities to increase the Council's income, any growth in the near term is unlikely to make up for the significant reduction in core funding or resolve the Council's budget deficit as set out above.
62. Equally, the Council's ability to charge for services or reduce the extent of discounts will not, in isolation, generate sufficient income to make up for the funding shortfall. As a result the Council must continue with its efforts to reduce expenditure in other ways to ensure that it has a balanced budget over the medium term.
63. In the year to date, the Council has already approved savings of £130k and these are reflected in the Council's budget for 2021/22 as shown here. Work has been ongoing to identify potential savings options that could be implemented over the period to 2023/24 and a summary of options is provided at [Appendix H](#). Given the magnitude of savings required, and bearing in mind the savings already achieved since 2010, an impact on frontline services is considered unavoidable.

Stop

64. It is acknowledged that decisions to stop delivering services are difficult for Councillors. However, in the context of the Council's financial position over the medium term, and without a significant change in the Council's funding allocations from Government, it is inevitable that such decisions will become necessary.

Collection Fund Accounts

65. The Council maintains separate accounts – or Collection Funds – for Business Rates collection and Council Tax collection. The estimated balance of each account (which could be a surplus or deficit) is a comparison of the expected collection of Business Rates/Council Tax at the beginning of the financial year to an estimate of collection at the end of the financial year and can either be used (if it is a surplus) in support of the budget or (if it is a deficit) must be recovered at a cost to the budget. At the year end, the actual surplus/deficit on each Account becomes the starting point for the following year's estimated balance for budgeting purposes.
66. Both the Collection Funds for Business Rates and Council Tax have been significantly impacted by Covid-19 in 2020/21. In both cases, collection rates are lower, not least because there has been limited debt recovery activities. In the case of the Collection Fund for Business Rates, the Government has, in its response to Covid-19, provided additional business rate reliefs which have reduced what business are required to pay. Councils have been reimbursed for the cost of these reliefs in the form of s31 Grants payable to the General Fund. And in addition to the impact of Covid-19, there have been the usual variations in the taxbase which vary the amounts to be collected.
67. Acknowledging the impact of Covid-19 on collection of both Business Rates and Council Tax, the Government is to allow Councils the ability to spread in-year Collection Fund deficits over the period to 2023/24 where this is necessary to do so. In Pendle's case, this applies to the Collection Fund – Business Rates but not the Collection Fund – Council Tax.
68. The Council's share of the Collection Fund – Business Rates deficit is estimated to be £4.624m of which £779k can be spread over equally over the financial years to 2023/24 leaving a net deficit of £3.463m in 2020/21 that must be recovered in 2021/22. In the main, this will be funded by the Business Rates – s31 Grant Reserve of £3.445m.
69. Whilst the in-year position on the Collection Fund – Council Tax is estimated to be a deficit of £260k, given changes to the Provision for Doubtful Debts, there is estimated to be an overall surplus of £0.845m of which the Council's share is £150k. This will be used in support of the Council's budget for 2021/22.
70. As indicated above, the position on each Collection Fund Account is an estimate at this stage and fixed for the purposes of developing the Budget for 2021/22. At the year end, any variance between the estimates now and the actual position on the Accounts will form the starting point of the estimates for the Budget 2022/23.

Council Tax Setting 2021/22

71. For the purposes of financial planning only, the medium-term financial plan assumes that Council Tax will increase by 1.99% in 2021/22 and each year of the plan period. A permitted increase of 1.99% or £5 (whichever is greater) was included in the Provisional Local Government Finance Settlement 2021/22 but will not be confirmed until the final Local Government Finance Settlement is announced.
72. For Councillors information, as set out earlier in this report, the Government's own assessment of the Council's Core Spending Power assumes an increase in Council Tax by the maximum permitted each year.

Localisation of Council Tax Support Scheme

73. The Council's local scheme of council tax support has operated without any fundamental change, save for the annual uprating of parameters, since 2013/14 when the scheme was first introduced. Whilst Pensioner claimants remain protected under the scheme those of working-age continue to receive support at a maximum of 80% of calculated entitlement.
74. The estimated cost of the scheme for 2020/21 was £7.248m. The latest scheme monitoring indicates that it is likely to cost £7.506m, an overspend of £258k. Pendle's share of this is estimated at c£46k. This is primarily a result of a higher than expected caseload as a consequence of Covid-19.
75. Given the expectation that Covid-19 will continue to impact in 2021/22, and taking into account an anticipated increase in Council Tax, the cost of Council Tax Support is expected to increase to £7.905m. The impact of this is factored into the Council's Taxbase for 2021/22 which was approved by this Committee at its last meeting.

Medium Term Capital Programme 2021/24

76. A report elsewhere on the agenda for this meeting considers the Medium-Term Capital Programme and the capital project proposals for next year specifically.

Budget Consultation

77. Consultation on the budget is planned or has been carried out as follows:-
 - in relation to the organisational review, both staff and Unison were involved in the development of proposals which were subsequently agreed by Council in December 2020; and
 - in accordance with the statutory requirement to consult with the business community, consultation is planned with local industry and employers and will be conducted through the East Lancashire Chamber of Trade.

Management Team's Emerging Budget Proposal for 2021/22 (and to 2023/24)

78. Subject to confirmation of the financial settlement for 2021/22 and given that work on the detailed assessment of the Council's Business Rates income has yet to be completed, further work is required on Management Team's budget proposal for 2020/21. The emerging budget strategy, which will be presented to this Committee at its meeting on 11th February 2021, is likely to comprise the following key components:-
 - an increase in Council Tax of 1.99% at Band D;
 - no reduction in the grant to Pendle Leisure Trust other than that arising from the Council's decisions on the savings proposals set out elsewhere in this report;
 - additional savings considered necessary in the context of the Council's medium term financial position;
 - use of reserves at a level sufficient to achieve a balanced budget albeit within the parameters of the Reserves Strategy set out above.

79. The Policy and Resources Committee should note that the emerging budget strategy reflects the one-year funding settlement made to the Council. It is not without its risks, including the following:-
- changes in the funding arrangements for local government are anticipated with the outcome for the Council unknown. It is not easy to mitigate against the impact of this other than main prudent estimates of funding;
 - the continuing impact of the Covid-19 Pandemic which, until the vaccination programme is rolled out in full, will continue to influence the Council's financial position. In mitigation, the Budget for 2021/22 includes provision of c£400k and there is c£1m remaining in the Covid-19 Reserve;
 - the level of savings required over the medium term continues to pose a significant challenge for the Council. To achieve savings on the scale necessary is likely to require the Council to withdraw some services and consider alternative service delivery models for others including further collaboration with the private as well as public and/or third sectors;
 - using the Council's reserves to balance the budget simply postpones rather than prevents the need for savings. The longer the savings are put off, the greater the challenge will become with less time to react in a planned way;
 - using reserves at a rate greater than that presently assumed exposes the Council to the risk of costs for which there are no identified resources; in this scenario the Council would be forced to make reactive savings to balance the budget.

Next Steps

80. For Policy and Resources Committee's information, Table 5 below provides a forward outline timetable for the remainder of the current service and financial planning process:-

Table 5: 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 savings to Council for decision	Completed
Nov	Spending Review 2020	Release 25 th November
Nov	Early drafting of Budget for 2021/22 and Revised Budget for 2020/21	Completed
Nov/Dec	Provisional Local Government Finance Settlement 2021/22	Released 17 th December
Dec-Jan 2021	Proposed Draft Budget 2021/22 developed	This report
Jan	Final Local Government Finance Settlement 2021/22	

Date	Action	Status
11 th Feb	Policy and Resources Committee recommends Budget and Council Tax to Council	
25 th Feb	Council sets final Budget and Council Tax for 2021/22	

IMPLICATIONS

Policy

81. The Council's General Fund Revenue Budget supports the delivery of services in pursuance of the strategic objectives set out in the Strategic Plan. The position reported for 2021/22 and the forward projections in this report continue to represent a significant challenge to service provision in the 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 Council will also need to review policies on the delivery of existing services to determine whether the existing policy direction is affordable within the resources available.

Financial

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

Legal

83. In accordance with s32 and s43 of the Local Government Finance Act 1992 (LGFA 1992), annually the Council must calculate and approve its budget requirement for the forthcoming financial year.
84. Section 25 of the Local Government Act 2003 also requires the Chief Executive, as the officer having responsibility for the administration of the Council's financial affairs, to report to the Council on the robustness of the budget estimates and adequacy of financial reserves when determining its budget requirement under the LGFA 1992. This report will be submitted for consideration by the Council when it deliberates the budget submission from the Policy and Resources Committee in February 2021.

Risk Management

85. In relation to the financial risks faced by the Council, there needs to be a balance between maintaining and improving key frontline service delivery and the sustainability of the financial standing of the Council.
86. The Medium Term Financial Plan currently indicates a significant deficit that is unsustainable. Even using reserves to smooth the effect of expected reductions in funding, still requires substantial budget savings to be made to maintain a balanced budget. Using reserves in excess of the amounts set out in the budget strategy proposed would, in the absence of an increase in Government funding, present a real risk to maintaining basic levels of service and require significant savings to be identified in later years of the plan period.

87. The position on the Council's MTFP is recognised on the Council's Strategic Risk Register as the highest risk for the Council and as such there is a continual review of the measures required to achieve a balanced budget. As the Government has yet to undertake a Comprehensive Spending Review, setting out its Spending Plans over the medium term, and given the potential fundamental changes in the funding of local government arising from the anticipated Fair Funding Review and potential changes to the Business Rates Retention System, there remains a great deal of uncertainty over the Council's future income.
88. In the short term, the Covid-19 Pandemic continues to impact on the Council's activities, both in terms of additional costs and shortfalls in income. This is particularly the case with the collection of both Council Tax and Business Rates, both of which look likely to be impacted whilst ever the Pandemic remains. And whilst the Government continues to make some financial support available to local authorities, it remains to be seen whether this is sufficient to meet the full net costs arising from the Pandemic.

Health and Safety

89. There are no health and safety implications arising directly from the contents of this report. The budget does, however, include provision for ensuring the Council can meet its health and safety obligations as required.

Sustainability

90. 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

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

Equality and Diversity

92. For all proposed savings proposals, an initial screening has been undertaken to assess at a high level the equalities impact against the recognised protected characteristics.

APPENDICES

Appendix A	– Response to the Provisional Local Government Finance Settlement 2021/22
Appendix B	– Summary General Fund: Revised Estimates 2020/21 and draft Base Budget 2021/22
Appendix C	– Budget Variations 2020/21 – Revised Budget compared to Approved Budget
Appendix D	– Budget Variations – Approved Budget 2020/21 to draft Base Budget 2021/22
Appendix E	– Main Assumptions used to develop Base Budget 2021/22 and MTFP 2021/24
Appendix F	– Balances and Reserves
Appendix G	– Summary of changes in the Medium Term Financial Plan 2021/24
Appendix H	– Summary of Proposed Savings/Income Generation Options 2021/24

LIST OF BACKGROUND PAPERS

Papers held in Financial Services