



**REPORT OF:** CHIEF EXECUTIVE (as S151 OFFICER)

**TO:** SPECIAL BUDGET COUNCIL

**DATES:** 25<sup>th</sup> FEBRUARY 2021

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## **ROBUSTNESS OF BUDGET ESTIMATES 2021/22 AND ADEQUACY OF RESERVES**

### **PURPOSE OF REPORT**

1. The purpose of this report is to report on the robustness of the Council's budget estimates for 2021/22 and the adequacy of financial reserves in accordance with Section 25 of the Local Government Act 2003. Section 25 (2) of the Act states that:-

*"an Authority to which a report under this section is made shall have regard to the report when making decisions about the calculations in connection with which it is made".*

2. **Councillors should therefore have regard to this report when making decisions on the 2021/22 Budget (Revenue Budget and Capital Programme) and the associated level of Council Tax.**

### **RECOMMENDATIONS**

3. The Council is recommended to consider and have regard to the statements from the Chief Executive (as the Council's Section 151 Officer) as provided at [Appendix A](#) when determining the Budget (Revenue Budget and Capital Programme) and level of Council Tax for 2021/22.

### **REASONS FOR RECOMMENDATION**

4. To inform Council of the Chief Executive's assessment of the robustness of estimates for 2021/22 and to ensure that Councillors fully appreciate the implications of the proposed budget on the Council's financial position.

## ISSUE

5. Under Section 25 of the Local Government Act 2003, the Chief Executive as the Council's officer designated under s151 of the Local Government Act 1972 has a duty to report to Council, when it considers the budget for the forthcoming financial year, on the following matters:-
  - a) the robustness of the estimates made for the purposes of the calculations; and
  - b) the adequacy of the proposed financial reserves.
6. In deciding on the Budget Requirement (and Council Tax Requirement) for 2021/22, the Council is required to take into consideration this report. The purpose of this is to acknowledge the risks and uncertainties faced by the Council and that adequate provision has been made for these both as part of the budget estimates and also in determining the adequacy of reserves.
7. The statements from the Chief Executive are provided at [Appendix A](#).
8. **Councillors should note that these statements are predicated on the Management Team's proposed budget as presented elsewhere on the Agenda for this meeting. Should there be material changes to the proposed budget that impact on the robustness of the estimates or the adequacy of reserves, it may be necessary for the Chief Executive to amend the statements provided at [Appendix A](#) as is considered necessary.**

## IMPLICATIONS

### Policy

9. There are no policy implications arising directly from the contents of this report.
10. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report to Councillors on the robustness of the Council's estimates and adequacy of the financial reserves. Councillors should have regard to the statements from the Chief Executive as provided at [Appendix A](#) when determining the Budget and level of Council Tax for 2021/22.

### Financial

11. There are no direct financial implications arising directly from the contents of this report although Councillors are asked to consider this report in their deliberations on the Council's budget and Council Tax for 2021/22.

### Legal

12. 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.

13. 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 has been produced to discharge this responsibility.

## **Risk Management**

14. The development of the Council's budget is a complex task and is based on estimates of future income and expenditure. Councillors will appreciate that these estimates are made on the basis of the best information known when undertaking the work. It is necessary, for example, to assume a certain level of increase in pay (albeit the pay award is determined nationally), to estimate the likely interest rates and make forecasts of demand for, and therefore income from, the use of Council services.
15. Whilst every effort is made to ensure these estimates are robust, Councillors should be aware there is a risk that both internal and external factors may have an impact on budgetary performance. To minimise and control the impact of this, the Council has in place various mechanisms including, for example, financial and contract procedure rules, budgetary control and monitoring arrangements.
16. The budget for 2021/22 includes a range of proposals for service savings. These proposals have been identified through the Council's Service and Financial Planning process and represent areas where it is considered possible to reduce the Council's budget whilst maintaining service delivery at a level capable of achieving the Council's corporate priorities. The risk of not approving these service reductions is, subject to compensating savings not being identified, the increased reliance on finite reserves. **Without increased income, whether from Government Grant, Council Tax or Fees and Charges, the use of reserves at this rate proposed is not sustainable and the base budget expenditure will have to be reduced.** Equally, in approving service savings proposals, whilst considered achievable, there needs to be action to ensure they are implemented on time and in full and this will need to be monitored throughout the coming year.
17. Councillors should be aware that the Medium Term position continues to show a substantial deficit which is of considerable concern as the availability of reserves reduces. The extent to which Councillors take action now to permanently reduce the Council's net cost base will reduce the extent to which savings are required in the future.
18. In addition to the budget strategy for 2021/22, work will be undertaken early in the new financial year to update the Financial Strategy to take into account the impact of the new budget and the known funding available in the period 2021/24. Following this, work will be required to develop this Strategy into a realistic set of options for the Council to pursue, in conjunction with the corporate planning process, in order to ensure that the ultimate objective of the Strategy, the achievement of a balanced budget over the medium term, is achieved.

## **Health and Safety:**

19. There are no health and safety implications arising directly from the contents of this report.

**Sustainability:**

20. There are no sustainability issues arising from the contents of this report.

**Community Safety:**

21. There are no community safety arising from the contents of this report.

**Equality and Diversity:**

22. There are no direct equality and diversity issues arising from the contents of this report.

**APPENDICES**

Appendix A – Statements from the Chief Finance Officer on the Robustness of the Council's Budget Calculations and the Adequacy of Financial Reserves

Annex A – Factors Considered in Determining the Robustness of Estimates and Adequacy of Reserves

**LIST OF BACKGROUND PAPERS**

None

## Appendix A

### Statement on the Robustness of Estimates and Adequacy of the Council's Reserves and Balances

1. In accordance with Section 25 of the Local Government Act 2003, the Chief Executive (as the officer designated under Section 151 of the Local Government Act 1972) has produced the following statements in respect of the proposed budget for 2020/21.
2. Council is asked to consider these statements when considering the budget for 2021/22.

### Statement on the Robustness of the Council's Budget Calculations

3. In respect of the proposed General Fund Revenue Budget and Capital Programme for 2021/22, Council is asked to consider the following statement from the Chief Executive acting in his capacity as the Council's Chief Financial Officer when considering the budgets for 2021/22:-

***"This statement is given only in respect of the 2021/22 budget setting process for Pendle Borough Council. I acknowledge my responsibility for ensuring the robustness of the budget calculations and the adequacy of reserves as part of this process.***

*As in previous years, a range of factors has been considered in this assessment of the robustness of the budget calculations for both the General Fund Revenue Budget and the Capital Programme for 2021/22. Whilst the narrative below explains some of these in more detail, **Annex A** summarises other factors that have been considered.*

#### Covid-19

*The Covid-19 Pandemic continues to have a profound impact on the Country. It also continues to impact directly on the activities of the Council and its financial position. Whilst the Government has made significant funding available for both business support and general support for the Council during 2020/21, the funding provision in 2021/22 is much reduced in comparison. For example, there is currently no specific provision for business support at this stage or any continuation of the hardship funding made available to those who have struggled to pay their Council Tax. Whilst this may reflect the Government's view that the impact of the Pandemic will, with the roll-out of the vaccination programme, have subsided towards the middle of the new financial year, the nature of the virus, the uncertainty about take up of the vaccine and the extent to which it is effective against new variants means that there remains a great deal of uncertainty about its continuing impact.*

*Specifically in relation to the Council's own activities, the impact of Covid-19 has been wide-ranging. Income from both Council Tax and Business has been significantly affected and whilst the Government has made funding available in the current year to meet some of the irrecoverable losses, no such provision has been made in 2021/22. Similarly, income from Court Costs, Trade Waste and Planning Fees has also reduced during 2020/21. Given the expectation that the Pandemic will continue to impact on the Council's activities in 2021/22, these income budgets have been reduced accordingly.*

*The Government has provided funding for the estimated additional cost of Council Tax Support (£235k) acknowledging the anticipated increase in the number of claimants although it is difficult to predict whether this will be sufficient. It should be viewed, though, in the knowledge that Pendle has had amongst the highest number of furloughed staff in Lancashire. Similarly, a grant of £633k has been provided by the Government for general expenditure pressures and the Council will be able to claim for c70% of any shortfall in budgeted income for the first quarter of 2021/22 financial year.*

*Whether the adjustment to budgets and the Government's funding provision is sufficient will depend on the extent to which the Pandemic continues, the costs pressures that arise and the income shortfalls that materialise. All of these are uncertain and the Council will have to continue lobbying to ensure that the Government provides full reimbursement of the costs of the Pandemic as it has indicated it would.*

## BREXIT

*On 31<sup>st</sup> December 2020, the transition period following the United Kingdom's departure from the European Union came to an end. Given the nature of the Council's activities, no specific budget provision has been made for the impact of BREXIT. However, the Council does hold funding of c£30k in reserve to meet any direct costs to the Council associated with matters arising from BREXIT although none are foreseen at this stage.*

## Business Rates Retention & Pooling

*Since the inception of the business rates retention scheme in 2013/14, the Council's annual share of income from the business rate retention system is not guaranteed; it is dependent on the Council's ability to retain and grow its business rates base and other factors outside of our control (e.g. appeals, collection etc). This is within an environment where economic growth in the Pendle area has proven difficult given a range of structural issues, eg connectivity, inadequate land supply for economic development and lack of available funding for business support.*

*Estimating the Council's share of income from business rates for 2021/22 remains a challenge for a number of reasons. As ever, the ongoing uncertainty on the timing and level of appeals since the system for making appeals was revised in 2017 continues to pose problems with estimating the overall level of business rates incomes. There remain a number of appeals outstanding against the 2010 rating list for which we can make an assessment but there continues to be limited detail at the time of budget setting regarding appeals against the 2017 rating list.*

*The position is also exacerbated by both the impact of the Covid-19 Pandemic and the general changes in the retail economy which are seeing many retail outlets move their activities away from traditional 'bricks and mortar' trading to online trading. Whilst the latter is a one of the more fundamental matter for the sustainability of business rates as a method of financing local government, the Pandemic has the more immediate potential to depress the rental value of properties – particularly offices as businesses exploit the opportunities for staff to work from home – which in turn will lead to downward pressure on business rates. The extent to which this will happen and its impact on the Council's estimate of business rates is difficult to predict but a matter that will, nevertheless, need to be monitored closely.*

*At the same time, the level and extent of reliefs being made available by the Government to cushion the impact of business rates may have a bearing the amount of business rate to collect. In current year, substantial reliefs were given to retail properties and whilst the Government has not yet currently indicated that any such reliefs will be repeated in the next financial year, the continuing impact of Covid-19 may necessitate this. The next key fiscal event is the Chancellor's Spring Budget which is expected on 3<sup>rd</sup> March 2021 and after the date on which the Council will set its budget. As a consequence, should there be any announcement on changes to Business Rates for 2021/22, these will need to be considered as part of the Council's Budget Monitoring process for the year.*

*To inform the estimate of funding available to support Council spending in 2021/22, estimates have been made regarding the value of business rates that will be collected in both 2020/21 (for the estimate of the estimated Collection Fund Deficit of £3.5m) and 2021/22 (for the estimated amount of retained Business Rates). These estimates are based on a range of assumptions around changes in business rates - new property assessments, changes to existing properties, appeals against rateable values, applications for Retail Relief etc – and also levels of collection.*

*Having reviewed these estimates, including the amounts held in the relevant provisions, whilst I am content that they are reasonable and prudent based on information available at the time, I must advise Council that there continues to be volatility in business rates, particularly due to the impact of Covid-19, outstanding appeals, applications for rate reliefs and collection.*

*For this reason, I have included in the budget a contribution of £3.5m from the Business Rates s31 Grant Reserves to offset the impact of the Collection Fund Deficit in 2021/22. And in the determination of the Business Rates to be collected in 2021/22, I have made a provision for a reduction in the Business Rates Taxbase, additional loss of business rates due to successful appeals and doubtful debts. I have also earmarked an element of the minimum working balance for this purpose. This is important given the Council remains a member of the Lancashire Business Rates Pool and by virtue of this does not benefit from any safety net protection under the current scheme of business rates retention.*

*For the current year, actual income from business rates will not be finalised until after the end of the financial year. We have established arrangements to monitor business rates income closely during the year so that the Council can take action as necessary to deal with any potential variation against the estimates used in setting the budget and these will continue to operate in 2021/22.*

### Development of Budgets

*The estimates of income and expenditure forming the council's general fund revenue budget and capital programme for 2021/22 have been prepared on the basis of existing plans, known current and future commitments and the financial implications of the proposals for service efficiencies/reductions. They have been prepared in conjunction with the Director, Service Managers and Budget Holders. The base budget for 2021/22 is consistent with the delivery of current and expected levels of service required to achieve the council's strategic objectives (save for those areas where savings are proposed as set in the budget report).*

*Where it has been necessary, in the case of certain budgets (e.g. pay, investment income and income from fees and charges), assumptions have been used for inflation, interest rates and service take-up that, on the basis of current and predicted levels of activity, are considered to be reasonable and prudent. Likewise, in relation to capital receipts and grant funding which are expected to be received by the Council, assumptions have been made about the timing and amount of those receipts which I consider to be reasonable.*

*Locally, some budgets are more sensitive and responsive to changes in demand for services. This includes, for example:-*

- staffing budgets which are dependent on various factors include agreement on pay awards, turnover and, more recently, difficulties in recruitment of staff requiring use of temporary or Agency cover to maintain service provision;*
- Housing Benefits where, in recent years, the growth of supported accommodation where Housing Benefit subsidy is paid at 60% has led to increasing costs for the Council;*
- the vitality of the local housing market which impacts on services such as Housing, Planning, Building Control and Local Land Charges. In particular, income budgets for these areas have been set with regard to known and predicted market conditions including, as indicated above, the impact of Covid-19 but the nature of these service activities means that it is difficult to be precise about service levels and therefore the income that will be generated as a result.*

*These examples illustrate the potential volatility in budgets, made even more volatile because of the uncertainty with Covid-19, hence it may be necessary to take corrective action during the year to ensure that the Council's budget and capital programme remain in balance. The effectiveness of this action relies on good systems of budgetary control, monitoring and risk management. These systems are well established.*

*Equally, there are certain areas of expenditure/income where limited information is available on which to base budget estimates. These include, for example:-*

- the extent to which the Council will need to incur expenditure during 2021/22 in the response to Covid-19 is largely uncertain. Funding remains in the Council's reserves to meet costs should it be necessary but whether this is sufficient depends on how long the Pandemic continues and the extent of expenditure incurred by the Council.*
- at the same, the Council will turn its attention to recovery from the Pandemic, both in terms of the well-being of residents and the health of the local economy. No specific funding is included in the budget for these matters but the Council may consider making provision available;*
- the effect of changes to legislation which may create additional cost burdens. Aside from known changes in legislation, for example, changes in the way in which land charges are administered and charged for together with constraints on the extent to which councils can charge for various services, following the General Election in December 2019, the new Government set out a legislative programme which may have implications for the delivery of Council services. Whilst the timetable for the implementation of this legislative programme has been significantly impacted by Covid-19, the Government will gradually return to delivering that programme with the potential for this to impact on the Council;*
- the ongoing implementation of welfare reforms on service users. Pendle migrated to Full Service Universal Credit in November 2018; the impact is expected to be on a sliding scale which will gather momentum and therefore implications of this for the council's contract with Liberata will have to be monitored;*
- the impact of cost shunting from other government departments as they, too, seek to reduce their costs, i.e. business rate reductions as schools convert to Academies or applications for rating reliefs from parts of the NHS;*
- more specifically, the Council has submitted the Nelson Town Investment Plan (TIP) as part of the Town Deal arrangements supported by Government. The assessment of the TIP has not yet concluded and so the amount of investment from Government is not clear; the bid is for c£29m and the Council may be required some element of match funding, either in cash or kind, as contribution to the delivery of some of the projects within the TIP. There is provision in the Council's Capital Programme for this but given the nature of the schemes, additional funding provision may be necessary.*

*Alongside these issues will be the success, or otherwise, of implementing savings proposals which Councillors agree to accept as part of the current budget process. It is important that the necessary measures to achieve these savings are implemented sufficiently early in the financial year to ensure that the full amount of savings is realised. Where savings are not implemented in full or at all, this could increase the requirement to draw from the Council's reserves in the year as well as creating unaffordable cost burdens in subsequent years.*

*It is important, therefore, to review actual performance against budget on a regular basis in order to ensure budgets remain on track, including the implementation of savings/efficiency proposals as well as being proactive in identifying emerging risks and responding accordingly, taking remedial action where this is appropriate.*

***Acknowledging the above and setting this within the wider control framework and financial management arrangements applied within the council I consider the Council's budget for 2021/22 in isolation to be robust.***



*Although I am not required at this stage to comment on the robustness of estimates for future years' budgets, as in previous years, it is my view that when considering the budget calculations for 2021/22, Councillors must have regard to the medium term financial position of the Council when deciding the budget and council tax for next year.*

*The Council's Medium Term Financial Plan to 2023/24 shows a deficit of c£3m. This is based on assumptions of Government funding which cannot be confirmed with any certainty at this stage. As Councillors will be aware, the Settlement for 2021/22 is for one-year only. The Government is planning to undertake a Comprehensive Spending Review in Autumn 2021 which, amongst other matters, is expected to establish the funding envelope for Local Government over the medium term. How this funding will be distributed to individual local authorities is not known but it will be influenced by many factors including, for example, the Government's ambition the outcome of the Fair Funding Review, the review of the Business Rates Retention Scheme and changes to the News Homes Bonus Scheme. Taken together, these have the potential to significantly change in the Council's future funding.*

*The Council's Financial Strategy is based around four key strands – Grow, Charge, Save and Stop. Progress is being made on the implementation of measure in all of these strands. That said, the budget reductions required are such that it is not feasible to make incremental reductions in services or wholly from back-office functions, particularly given the amount of savings made since 2010. Budget reductions on the scale required should be considered strategically and set in the context of the main areas of service spending. It is acknowledged that good progress has been made to date on these key areas, however the financial challenge facing the Council is such that more work is needed and it will take time to identify and implement the required budget reductions.*

*At the same time, the Council needs to manage the use of balances and reserves as part of the strategy to achieve these budget reductions. As balances and reserves have reduced, this will become more difficult and so decisions on budget reductions will become unavoidable.*

*As in previous years, Councillors are requested to commence the development of budget options early in 2021 to support the Council's ongoing transition to a lower and more sustainable cost base in subsequent years. If*

***Therefore, despite there being an established and agreed Financial Strategy, the degree of uncertainty with future funding allocations combined with the projected scale of the savings required by the Council to ensure a balanced budget each year means that I cannot, at this stage, comment on the robustness of budget estimates with effect from 2022/23. Suffice to say, the financial challenge facing the Council remains substantial and there are undoubtedly difficult decisions ahead as we seek to align our service spending within our projected available resources.***

### **Statement on the Adequacy of Financial Reserves**

*"Having conducted a review of the Council's requirement for the minimum working balance, taking into consideration various matters including:-*

- the Council's spending plans for 2021/22 and the medium term financial position;*
- adequacy of estimates of inflation, interest rates;*
- treatment of demand led pressures;*
- impact of external partnerships;*
- the need to respond to emergencies.*
- Capital programme variations.*

*I can confirm that an amount of £1.0m is considered adequate for this purpose.*

*In relation to other financial reserves, a review has also been conducted to determine their adequacy. In addition to the matters referred to above, and taking into account the Medium Term Financial Plan, the review concluded that the level of such reserves is adequate based on current information in relation to anticipated risk, existing commitments and known future plans. That said, should there be a significant call on those reserves another review will need to be carried out.*

***There are, however, the following matters that I wish to bring to Councillors attention:-***

- it is important to note the rate at which reserves are being used to support the General Fund Revenue Budget is not sustainable over the medium term without the need to align expenditure more closely with ongoing resources;***
- during the lifetime of the current Medium Term Financial Plan, it is projected that the entirety of the Budget Support Reserve will be used. Once that is the case, the Council will have had to take the necessary action to balance expenditure with ongoing resources by means other than the use of reserves.***

*This statement is made on the understanding that any use of reserves and balances is undertaken in accordance with the Council's existing Financial Procedure Rules and that a further review of reserves and balances will be undertaken in the Summer of 2021 following the preparation of the Council's accounts for 2020/21."*

## Factors Considered in the Determining the Robustness of Estimates and Adequacy of Reserves

Factors	Commentary
<p><b>The Council's Aims and Priorities</b></p>	<p>Where it is considered affordable to do so, the budget estimates reflect the amounts required to achieve service objectives agreed by Council as part of our current Strategic Plan.</p> <p>The Council's Strategic Plan for the period to 2023 was approved by Council in September 2020 and therefore the budget estimates and key budget assumptions have been aligned to the Council's corporate objectives.</p> <p>In the light of the Covid-19 Pandemic, there will be a need to review the Strategic Plan to ensure that the actions set out properly reflect those required to support the recovery of the Borough. This work will be undertaken during 2021.</p>
<p><b>Financial Strategy (and Medium Term Financial Planning)</b></p>	<p>In preparing the Council's budget estimate for 2021/22, due regard has been given to the impact of decisions made by the Council on matters which might impact on the Medium Term Financial Plan (MTFP).</p> <p>Details of the revised MTFP were reported to the Policy and Resources Committee on 11<sup>th</sup> February 2021 so that decisions on the budget for 2021/22 can be taken in the context of the longer term impact for the Council. Equally, this is reflected in the development of a Financial Strategy which, amongst other matters, seeks to combine prudent use of reserves with efforts to align the Council's ongoing expenditure with ongoing resource levels.</p> <p>Whilst acknowledging that the Financial Strategy is predicated on a range of assumptions which have contributed to the development of the Medium Term Financial Plan (MTFP), the extent that the Council takes decisions that impacts those assumptions, will result in changes to the MTFP.</p> <p>Whilst the budget estimates shown in the Medium Term Financial Plan for 2021/22 to 2023/24 are, on the basis of current information, reasonably robust they are unaffordable given the projected levels of income. There is additional uncertainty attached to forecasts from 2022/23 given potentially significant developments nationally which will impact on the funding of local government. These are the Comprehensive Spending Review expected in Autumn 2021, the Fair Funding Review and changes to the Business Rates Retention Scheme, both of which are now expected to impact from April 2022.</p> <p>The Financial Strategy proposed for future years retains the key themes of:-</p> <ul style="list-style-type: none"> <li>• <b>Growing</b> the Council's taxbases, both for business rates and for Council Tax along with any schemes, if any, the Government uses to incentivise the supply of housing (like the existing New Homes Bonus Scheme although it is acknowledged this is subject to reform);</li> </ul>

Factors	Commentary
	<ul style="list-style-type: none"> <li>• <b>Charging</b> for services where it is considered appropriate to do so on a cost recovery basis and to use spare capacity. It will also involve the introduction of new charges where this is considered feasible;</li> <li>• <b>Saving</b> costs by being more efficient, working in partnership with others or by prioritising some services over others when allocating resources;</li> <li>• <b>Stop</b> – determining what are not priorities, seek other organisations who could provide them or stop them given the financial challenge we face.</li> </ul> <p>Underpinning the current strategy are the following strands:-</p> <ul style="list-style-type: none"> <li>• pursuing an Economic Development Strategy aimed at increasing, amongst other matters, the number of business rateable properties in Pendle thereby increasing the Council's share of retained business rates;</li> <li>• encouraging housing development within the Borough thereby boosting our access to additional funding which the Government may distribute to reward the supply of housing growth. Although the New Homes Bonus Scheme is likely to end, the Government is considering a further scheme to incentivize housing growth;</li> <li>• making savings over the medium term based on the MTFP savings requirement rather than relying solely on reserves to balance the Council's budget; a strategy that relies heavily on finite reserves will simply defer, not reduce, the need to make savings and the longer savings are put off the greater the amount required.</li> <li>• increasing the Council Tax in 2021/22 and subsequent years, to the extent this is possible without triggering a referendum. The Management Team proposal for 2021/22 is that Council Tax charge be increased by 1.99% (an increase of £5.39 at Band D) and thereafter by the maximum amount within any revised thresholds set by Government. No consideration has been given to exceeding the referendum threshold although this policy remains open to consideration in future years;</li> <li>• no avoidable budget growth without compensating savings;</li> <li>• the planned use of the Budget Support Reserve in the period 2021/22 and 2022/23 to 'smooth' the amount of savings required accepting that even then, the magnitude of savings will present some extremely difficult decisions for the Council and impact on frontline service provision. Hence, the medium term plan assumes the use of all of the Budget Support Reserve by 2022/23.</li> </ul> <p>Acknowledging the significant deficit on the Medium Term Financial Plan, it is important that work begins early in the new financial year to start developing options for the delivery of future savings.</p>

Factors	Commentary
<p><b>The level of funding likely from Central Government towards the cost of local services</b></p>	<p>For 2021/22, the Government has made a one-year only funding settlement, pending the Comprehensive Spending Review in Autumn 2021 where it is expected the Government will provide medium term funding information for the period from April 2022.</p> <p>For 2021/22, given there have been no substantive changes, the Business Rates Retention Scheme will operate as in the current year with the Council retaining 40% of any business rates (net of the annual Tariff payable to Government). Estimates of Business Rates to be retained have been produced and feature in the Council's budget for 2021/22. The Council also expects to participate in the Lancashire Business Rates Pool in 2021/22.</p> <p>For 2021/22, the Council's core Revenue Support Grant will be £1.170m which is a marginal increase when compared to the current financial year.</p> <p>At this stage, given the Comprehensive Spending Review in Autumn 2021, the Fair Funding Review and the review of the Business Rate Retention Scheme, all of which will impact on funding allocations from April 2022, it is not possible to say with any certainty what Government funding the Council will receive after 2021/22. Forecasts of funding included in the Medium Term Financial Plan are based on estimates for 2021/22 and information provided to the Council by LG Futures who the Council retains as support on these matters.</p>
<p><b>Council Tax Base</b></p>	<p>The Council agreed a Council Tax Base of 23,898.0 (24,257.6 in 2020/21) Band D Council Tax properties for 2020/21 in December 2019, a reduction of 1.48% when compared to the previous year.</p> <p>The Tax Base reflects a rate of collection of Council Tax for 2021/22 of 95%, reduced by 1 percentage point when compared to the current financial year to reflect the impact on collection of the Covid-19 Pandemic.</p> <p>The Council has robust procedures to monitor the rate of Council Tax collection during the financial year.</p>
<p><b>Referendum Threshold set by the Secretary of State in respect of Council Tax Increases</b></p>	<p>For 2021/22, the Government has indicated that for District Councils, the core principle is 1.99% or £5, whichever is greater. Anything above these limits will trigger a referendum of local taxpayers.</p> <p>The recommendation to the Policy and Resources Committee and Council from Management Team is that the Council increase Council Tax by £5.39 (1.99%) at Band D for 2021/22.</p>
<p><b>The Prudential Code and its impact on capital planning (including the Corporate Capital Strategy)</b></p>	<p>The Council has a Corporate Capital Strategy which informs future projected capital expenditure and income. Arising out of consideration of the Corporate Capital Strategy, the Management Team has recommended to Council a Capital Programme for 2021/22 which is considered to be affordable, prudent and sustainable.</p>

Factors	Commentary
	<p>Subject to Council's decision on the overall Capital Programme and how it will be financed, it may be necessary to revisit the prudential indicators to ensure that the proposed Capital Programme remains affordable, prudent and sustainable</p>
<p><b>Financial Standing (including adequacy of reserves)</b></p>	<p>On the basis of the revised estimate approved by Policy and Resources Committee the General Fund Revenue Budget for 2020/21 is estimated to be underspent by £194k. Any variations that have an ongoing impact on the Council's budget in the current year have been factored into the budget for 2021/21.</p> <p>The Medium Term Financial Plan for the period 2021/22 to 2023/24 shows a shortfall in projected resources giving rise to a significant savings requirement.</p> <p>The Council has in place a strategy which combines the planned use of reserves to smooth the level of savings required in each year but nevertheless this still requires Councillors to agree the necessary reductions in expenditure to balance spending within available resources.</p> <p>A review of the Council's Minimum Working Balance justifies retaining a balance of £1.0m. The adequacy of this will remain subject to review on at least an annual basis. Equally, a review of specific reserves has been undertaken and these are assessed as being adequate for the purpose for which they were created. As required by Statute, these too will be subject to at least an annual review.</p> <p>The Council's External Auditors gave an unqualified opinion on the Statement of Accounts for 2019/20 and, in the context of our Financial Standing, our arrangements for ensuring value for money in the year. This is an annual review and given the pressure on the Council's financial position, the Council's External Auditors continue to highlight the medium term funding deficit as a matter of concern.</p>
<p><b>Financial Management</b></p>	<p>The Council's financial information and reporting arrangements are considered to be sound and the end of year procedures in relation to budget management and the closure of accounts are currently considered fit for purpose.</p> <p>As indicated above, the Council's External Auditors gave an unqualified opinion on the Statement of Accounts for 2019/20 and our arrangements for ensuring value for money in the year. The former suggests that the External Auditors are able to place reliance on the Council's arrangements for financial management.</p> <p>However, as Councillors are aware, the post of Chief Finance Officer (CFO) remains vacant despite attempts to recruit to the position. Whilst the Chief Executive provides cover as the Council's CFO (and s151 Officer) this is not a sustainable position.</p> <p>Equally, there has been turnover in the Finance Team (Accountancy Manager, Accountant, Payments Officer) that means the Team is under-resourced hence the use of Temporary Staff to provide the capacity necessary to provide an effective Finance function.</p>

Factors	Commentary
	<p>In the case of all vacant posts, recruitment is underway and it is hoped that all vacant posts will be filled by June 2021.</p> <p>The management of the Council's asset base continues to be good with resources linked to capital planning in both the annual budget and the Medium Term Financial Plan.</p> <p>Collection performance of both NNDR and Council Tax are broadly in line with target for 2019/20. Collection performance continues to be managed closely through the Partnership Steering Group operated by the Council in partnership with Liberata.</p>
<p><b>Corporate Governance and Risk Management</b></p>	<p>The Council has adopted a Local Code of Corporate Governance based upon the most recent requirements of the CIPFA/SOLACE Corporate Governance Framework. The Local Code was assessed against the revised 2016 CIPFA/SOLACE framework and overall, our arrangements were found to be robust with only a small number of areas requiring further work or improvement.</p> <p>These arrangements are subject to regular self-assessment by a Corporate Governance Working Group comprising the Chief Executive, Corporate Director, Head of Legal Services and the Client and Performance Manager. The Group meets periodically to consider both corporate governance and risk management issues with reports to the Council's Policy and Resources Committee and the Accounts and Audit Committee.</p> <p>The Council also has a risk management policy and framework which underpins the Strategic Risk Register. A Risk Management Working Group also meets on a quarterly basis to review the Council's operational risks.</p>
<p><b>The adequacy of the Council's Insurance Arrangements</b></p>	<p>The Council's insurance arrangements are reviewed annually as part of the review of premiums paid and levels of cover obtained.</p> <p>The Council implemented a contract of insurance with Zurich Municipal from April 2020 following the completion of an OJEU compliant procurement exercise.</p> <p>There continue to be close links between the work to ensure adequate insurance arrangements, risk management and business continuity. This work is overseen by the Risk Management Working Group. The minutes of the Risk Management Working are reported to Management Team.</p>
<p><b>Business Continuity Arrangements</b></p>	<p>The Corporate Business Continuity Plan (BCP) has been updated and includes an impact analysis for specific services. A test of the arrangements was planned for March 2020 but was postponed given the Council's response to the Covid-19 Pandemic.</p> <p>In response to the impact of the Covid-19 Pandemic, the Council invoked its Business Continuity Plan and the Strategic Crisis Management Plan. These plans remain in operation given the continuing prevalence of the Pandemic.</p> <p>Likewise the Council's Emergency Plan was updated in 2019 and was subject to review and testing in November 2019. In view of the Council's response to the Covid-19 Pandemic, there has not been an opportunity to undertake the annual test of the Plan. This will be considered during 2021.</p>



Factors	Commentary
<b>Arrangements to secure Value for Money</b>	<p>The Council's arrangements in relation to value for money have been assessed and the External Auditor who issued an unqualified opinion on the Council's arrangements for securing value for money for 2019/20 (as reported to Accounts and Audit Committee in November 2020).</p>
<b>Interest Rates</b>	<p>The bank base rate is currently 0.10% and is expected to rise to remain unchanged during 2021/22. Indeed, there is the prospect of negative interest rates. This has a direct impact on the levels of investment returns the Council expects to receive.</p> <p>Looking ahead, interest returns have been set at 0.20% for 2021/22, 0.30% for 2022/23 and 0.40% for 2023/24 although these will be reviewed as part of the on-going development of the Medium Term Financial Plan. This reflects the expectation that interest rates will remain relatively low over the medium term.</p> <p>Interest rates on long term debt are fixed at the rate at which the debt was taken. The Council's present debt which consists wholly of loans from the Public Works Loan Board has a consolidated rate of interest of 2.91%.</p> <p>Annually, the Council agrees a Treasury Management Strategy which sets out how both borrowing and investments will be managed throughout the year. For 2021/22, this will be reported to Council in March 2021.</p> <p>To mitigate against fluctuations in interest rates, and therefore changes in investment returns, the General Fund Minimum Working Balance includes provision for loss of income in the short term.</p>
<b>Pay and Price Inflation</b>	<p>An allowance of 2% has been factored in to the budget for the Local Government pay award in 2021/22.</p> <p>Generally, other budgets are cash limited (i.e. not increased by general inflation) with the exception of certain costs, e.g. utilities, telephones, car allowances, where budgets have been increased to reflect anticipated inflationary increases. The unitary charge payment to Liberata has been inflated in line with the agreed indexation methodology.</p> <p>Consumer Price Inflation at December 2020 was 0.6% (2.0% for December 2019) and the Retail Price Index was 1.3% (2.7% for December 2019).</p>
<b>Fees and Charges</b>	<p>Annually, the Council reviews its fees and charges. The outcome of the most recent review was reported to the Policy and Resources Committee in October 2020.</p> <p>As explained above, where it has been considered necessary, budgets have been adjusted to reflect the impact of the Covid-19 Pandemic.</p> <p>As in the current financial year, the Council needs to closely monitor budgets for fees and charges to ensure they remain in line with expectations and, where necessary, be in a position to respond if budgets are not being achieved.</p>



Factors	Commentary
<b>Demand Led Pressures</b>	<p>Where possible, the forecasts of income and expenditure forming the Council's budget estimates for 2021/22 take into account anticipated changes in demand led pressures to the extent that they can be predicted. However, by the very nature, these can vary from year to year as service take-up in these areas is difficult to forecast.</p> <p>The Covid-19 Pandemic continues to impact on the Council's budget and is expected to continue doing so in the 2021/22 financial year. The success of the NHS Vaccination Programme and how quickly it is rolled out across the Country will be a key determinant in this matter.</p> <p>At the same time, following the United Kingdom's departure from the European Union and the end of the transition period</p> <p>There remains the potential for increases in the number of service users in areas such as Benefits and Homelessness and the extent to which the Council maintains service provision will need to be monitored carefully.</p> <p>In recommending the budget for 2021/22 to Council, the Policy and Resources Committee also resolved that budgets should be cash limited and as a consequence Service Managers are generally required to manage demand led pressures within their existing budget allocations.</p> <p>Notwithstanding this, the Council's General Fund Minimum Working Balance includes provision to deal with some level of unexpected and unforeseen costs arising from increases in demand for services.</p>
<b>Emerging Pressures</b>	<p>The projections within the budget and the Medium Term Financial Plan include all known and quantified priorities and growth pressures that Managers are aware of at the time the budget is proposed.</p> <p>Some matters, particularly the financial impact of the Covid-19 Pandemic and the time it will take the local economy to recover from its impact, are difficult to assess in budgetary terms and will, therefore, require closely monitoring. The arrangements are in place for that to happen.</p> <p>Looking ahead, as well as the continued reduction in our core funding generally, there are a range of other issues which may require investment:-</p> <ul style="list-style-type: none"> <li>• a focus on economic growth and job creation to support business and increase employment which should yield additional business rates income;</li> <li>• the Nelson Town Deal may require match funding from the Council and other local organisations;</li> <li>• the ongoing changes to the Benefits regime including the impact of Full Service Universal Credit and ongoing welfare reforms. This is difficult to predict especially as changes to the programme of claimants transferring to UC recently being announced by government;</li> <li>• as partners and other local organisations experience reductions</li> </ul>

Factors	Commentary
	<p>in their funding this may affect access to services they provide within Pendle and in some cases lead to pressure for the Borough Council to help address the position or to help other groups to take on the responsibility (e.g. services provided by the County Council and the role of the Voluntary and Community Sector in Pendle).</p> <ul style="list-style-type: none"> <li>• as the Council reduces in size, funding may be required to help meet the 'costs of change';</li> <li>• legislative changes leading to potential increased costs for the Council.</li> </ul> <p>This above is not an exhaustive list and there will be other issues that arise either due to local priorities or statutory obligations.</p>