



REPORT OF: CHIEF EXECUTIVE

TO: POLICY AND RESOURCES COMMITTEE

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Report Author: Dean Langton
Tel. No: 01282 661602
E-mail: dean.langton@pendle.gov.uk

FINANCIAL STRATEGY UPDATE OF THE MEDIUM TERM FINANCIAL PLAN 2022/25

PURPOSE OF REPORT

1. The purpose of this report is to provide the Policy and Resources Committee with an update on the Council's Financial Strategy and Medium Term Financial Plan (MFTP) 2022/25 and to set out a draft Budget Strategy for the period.

RECOMMENDATIONS

2. The Policy and Resources Committee is recommended to:
 - a) note the outlook for Government funding in the period 2022/23 to 2024/25 as explained in the report and in particular the delay to local government funding reforms;
 - b) note the estimated outturn position for 2020/21 and that a further report on this matter will be considered by this Committee in July 2021;
 - c) note the proposed Financial Strategy for 2022/25 (and the supporting Medium Term Financial Plan 2022/25 as shown at [Appendix B](#)) as set out in the report and in doing so the strategy for the use of Balances and Reserves over the same period;
 - d) acknowledging the success of the service/asset transfer programme to Town and Parish Councils, identify any further areas of service and/or assets for transfer and ask Officers to initiate discussion on this matter with the relevant Town and Parish Councils;
 - e) agree to retain the cross-party Budget Working Group and request that it:
 - i. commences the detailed work required on the main areas proposed for review in the current year as outlined in paragraph 46 of this report;

- ii. develops charging and savings proposals to reduce the Council's net expenditure by at least £1.450m for consideration as part of the budget for 2022/23;
- iii. identifies further charging and savings options to deal with the balance of the budget deficit to 2023/25;
- iv. consider what, if any, consultation on the Council's budget should be undertaken to inform the development of the budget for 2022/23;

f)note that a separate report on the Medium Term Capital Programme will be presented to the next meeting of the Policy and Resources Committee in July 2021.

REASONS FOR RECOMMENDATION

3. To continue with the implementation of the Council's Financial Strategy and to deal with the Council's forecast medium term budget deficit.

ISSUE

Background

4. In February 2021, the Council set its Revenue Budget and Capital Programme for 2021/22. As a consequence of the uncertainty about the impact of the Covid-19 Pandemic on the national public finances, the Government implemented a one-year Spending Review for 2021/22 and the Council, as with all Local Authorities, received a one-year funding settlement for the year. This was the second year running that the funding settlement was for one-year only. After a number of years of austerity, and despite the Council suffering the second highest real terms funding reduction of any Council in the Country since 2010 (only Great Yarmouth Borough Council has experienced a higher funding reduction), the one-year funding settlement provided a further marginal reduction in funding when compared to the previous year.
5. This report is presented in the midst of the continuing impact of the Covid-19 Pandemic which is undoubtedly one of the most significant matters that has had a global impact for a generation. Despite the roll-out of the vaccine, the emergence of variants of concern continue to inhibit recovery from the Pandemic which looks likely to remain for some time to come and will continue to impact on the way in which the Council operates and, relevant to this report, its financial standing.
6. In this respect, the extent to which the Pandemic will continue to impact on the Council's financial position is difficult to predict with areas such as income generation and collection of both Council Tax and Business Rates likely to be affected in the short to medium term. That said, the Government signaled the end to funding support for local authorities as part of the Local Government Finance Settlement 2021/22 and so, for the purposes of the Medium Term Financial Plan set out in this report, it is assumed that no such funding support is made available. Depending how long the Pandemic continues to impact, this may be a policy that the Government will have to review.

Funding Outlook 2022/25

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

Comprehensive Spending Review

8. As Councillors may be aware, the Government planned to undertake a Comprehensive Spending Review (CSR) in both 2019 and then 2020 which would have set spending limits for each Government Department including the Ministry of Housing, Communities and Local Government (MHCLG) from which the Council receives the bulk of its financial support. It was anticipated that the CSR would, as with previous such reviews, be a multi-year spending review. Due to the uncertainty with BREXIT and the significant impact of the Covid-19 Pandemic, both the CSR for 2020/21 and 2021/22 were limited to single year funding announcements.
9. On 3rd March 2021, as part of the Budget 2021 Statement, the Chancellor of the Exchequer announced that a CSR would take place later in 2021 and would be completed in time to inform Departmental funding allocations from April 2022. It is anticipated that this will be a multi-year setting of Departmental Spending Limits and will be based on spending limits set out in Budget 2021. Of course, progress in dealing with the Pandemic, the continuing impact of rates of infection and the pace in which the economy recovers are key matters that are likely to influence both the timing and the shape of the CSR.

Local Government Finance Reforms

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

- ***Fair Funding Review*** – this review commenced in 2018 with the aim of setting new baseline funding allocations for each local authority based on their relative needs and available resources. The outcome of the review was to inform the funding settlement for Councils for 2020/21 but in September 2019, implementation was delayed until 2021/22 given the uncertainty with BREXIT. In April 2020, the Government announced the implementation of the review *‘would not now go ahead to allow councils to focus on meeting the immediate public health challenge posed by the pandemic’*.

Subject to the containment of the Pandemic, it was anticipated that the review would be implemented from 2022/23. However, recent articles in the local government press would suggest that the Fair Funding Review may not now take place although this has yet to be confirmed by the Government. To date, there has been no consultation on this matter.

This review is crucial for Pendle. With the introduction of the current funding methodology in 2013/14, the relationship between the needs of the authority and the funding made available to it by the Government was ended with funding allocated to those places capable of growing their local taxbases (either from business rates by growing their business base or from Council Tax by building more houses). Given underlying structural matters with the Pendle economy, eg lack of strategic connectivity, low educational outcomes, relatively low skills base and a lack of new jobs (matters which have been emphasised by the impact of Pandemic) combined with a local general aspiration for low housing growth, this national policy shift has not benefitted the Council.

Equally, there is limited 'equalization' of resources between Councils in the current funding methodology. Under the former funding methodology, Councils with low taxbases (like Pendle, where there is a predominance of Band A properties) were given more Revenue Support Grant to compensate for this lack of local taxable capacity. That system ended in 2013/14 and with the annual reduction in Revenue Support Grant (RSG) and the limited growth in the Council's taxbase, the loss in RSG has far outstripped any additional Council Tax income. Again, establishing the link between grant funding and taxable capacity is fundamental to a fair funding system.

- **Business Rates Retention Review** – the Government had planned to increase the percentage of business rates that Councils keep, from 50% to 75%, from 2020/21. Again, this has been postponed and it was expected this will be implemented in 2022/23. Again, given the impact of Covid-19 on business and questions about the sustainability of business rates as a method of funding local government services, it is not clear whether the Government will pursue a policy of increasing the amount of business rates retained.

And, related to Business Rates, in May 2020 the Government announced that, again due to the impact of the Pandemic, the planned revaluation of Business Rates in 2021 will now take place in 2023 and will be based on rental data from April 2021.

- **New Homes Bonus** – as part of the Funding Settlement for 2021/22, the Secretary of State for MHCLG announced a one-year allocation of New Homes Bonus (plus the legacy payments from previous years). The Government's rationale for a single year payment in 2021/22 was their intention to consult on a new method of incentivising housing growth in Spring 2021 (this consultation was expected in 2020 but was deferred because of the Covid-19 Pandemic).

As Councillors may recall, the Government did open a consultation on changes to the New Homes Bonus Scheme earlier this year and this Committee agreed the Council's response at meeting in March 2021. As indicated in the response, the changes proposed combined with the Council's general position on housebuilding is likely to result in no payment of New Homes Bonus to the Council.

- **Lower Tier Services Grant** – a new feature of the Funding Settlement for 2021/22 was the payment of a Lower Tier Services Grant which, as its name suggests, is payable to Councils like Pendle that have a responsibility for lower tier services. It is assumed that this grant is one-off for 2021/22 and not payable thereafter.

Funding Forecast for 2022/25

11. It is clear that the Pandemic has had a significant impact on the public finances, with national in-year borrowing at largely unprecedented levels, and the pace at which the national economy recovers from the Pandemic will inevitably have a bearing on public spending. Given the uncertainty around the CSR and, with it, the amount of funding available for local government and whether the reforms of local government finance set out above will take place in time to inform the Local Government Finance Settlement for 2022/23, it is difficult to predict what funding the Council will receive from 2022/23 onwards.
12. With that in mind, Table 1 below provides a best estimate at this stage of the likely funding position for the Council over the next 3 years to 2024/25.

Table 1: Forecast of core government funding to 2024/25

Year	Revenue Support Grant £'000	New Homes Bonus £'000	Lower Tier Services Grant £'000	Sub-total £'000	Estimated share of NNDR £'000	Total Core Funding £'000
2020/21	1,164	438	-	1,602	4,131	5,734
2021/22	1,170	168	173	1,512	4,093	5,605
2022/23	1,194	142	-	1,336	4,019	5,354
2023/24	1,218	-	-	1,218	3,944	5,162
2024/25	1,242	-	-	1,242	3,871	5,113

13. As the table indicates, RSG is expected to grow by inflation, New Homes Bonus is assumed to reduce to nil and growth in business rates income is expected to reduce annually to reflect an overall reduction in funding for Local Government. As and when more information on these matters is known, a further review will be undertaken

Council Tax

14. The Council's share of Council Tax at Band D is currently £276.01 (around 13% of the overall Council Tax charge). Councillors approved an increase of 1.99% when setting the budget for this year. Current Council Tax referendum principles limit district councils to maximum increases of less than 2% or no more than £5 per annum (whichever is the greater) without the need for a referendum. It is not anticipated that the Government will relax the referendum principles and so the assumption in the Medium Term Financial Plan is that Pendle's Council Tax will be increased by 1.99% each year.
15. The Council's Taxbase for 2021/22 is 23,898.0. It is assumed that the Taxbase will grow by 0.5% in each year.

Draft Revenue Outturn for 2020/21

16. Work is underway on the closure of the Council's accounts for 2020/21 although Councillors will appreciate progress with this has been impacted as a result of the work required to respond to the Covid-19 Pandemic. Early indications are that the Council's Revenue Budget will underspend by c£500k in 2020/21 (net of slippage and other adjustments).

Estimated Balances and Reserves

17. In addition to the sources of funding outlined above, the Medium Term Financial Plan considers the level of available balances and reserves and proposes a strategy for their use. Subject to confirmation of the Revenue Outturn position for 2020/21, provided at [Appendix A](#) is a summary of the Council's Balances and Reserves as at 31st March 2021. This analysis also includes forward projections of how the reserves are proposed to be used.

18. The key issues to note at the present time in relation to Balances and Reserves are:-
- it is assumed at this stage that the Minimum Working Balance (the General Fund Balance) will be maintained at £1m. Whilst the General Fund Balance will continue to be reviewed annually, the Medium Term Financial Plan assumes that it will remain unchanged over the life of the plan;

- £200k of the ICT Reserves represents funding provided to the Council by the Local Government Association and is specifically earmarked for improvements to the Council's Cyber Security arrangements. These improvements have been agreed with the LGA Cyber Improvements Team will be implemented in the early part of the 2021/22 financial year;
 - The Revenue Expenditure Reserve balance of £1.890m comprises £827k earmarked for the Pendle Leisure Trust in 2022/23 with the balance being budget slippage from 2020/21 and previous years. It is assumed that this funding earmarked for the Leisure Trust will be used in support of the Trust's activities in 2021/22 given the continuing impact of Covid-19 on their ongoing income levels and, subject to a further report on this matter, as a contribution to the capital improvements of the Council's Leisure Centres;
 - The Business Rates Volatility Reserve is held to deal with the volatility in the Business Rates Retention Scheme, not least from changes in the Valuation List for Business Rates from one year to the next. At this time, it is not possible to predict the impact of the Covid-19 Pandemic on the Business Rates Taxbase and so the availability of this reserve provides the Council with funding to respond as appropriate. At the same time, the uncertainty with the proposed changes to the Business Rate Retention Scheme necessitate setting aside some funding provision as a contingency against any potential adverse impact of these changes;
 - the s31 Receipts in Advance Reserve is held specifically to match the deficit on the Council's Collection Fund for Business Rates which is brought forward into 2021/22 from 2020/21.
 - certain earmarked reserves (e.g. VAT Partial Exemption Reserve, Insurance Reserve) are held as part of the Council's management of risks associated with related areas of activity. These are reviewed annually, both as part of the closure of the Council's accounts and also as part of the budget setting process;
 - the Covid-19 Response Reserve of £314k is specifically earmarked for the Council's response to the Covid-19 Pandemic.
19. It is stressed that whilst using reserves allows the Council to incur expenditure above its ongoing resources, it is not sustainable to continue doing so at current levels; hence the need to align expenditure with projected future resources is a key theme of the Council's financial strategy.

Budget 2021/22

20. The Council's Revenue Budget for 2021/22 was agreed at the meeting of Council in February 2021.

Review of Budget Strategy 2021/22

21. The extent to which the budget strategy varied from the final approved budget for the year has a bearing on the starting position for this update of the medium-term financial plan. A comparison is provided in Table 2 below and provides some context for the Council's medium-term financial position set out further in this report:-

Table 2: Review of Budget Strategy 2021/22

Strategy Area	Proposed	Agreed	Financial Impact £000
Council Tax	Increase in Council Tax 1.99%	Increase in Council Tax of 1.99%	NIL
Budget Growth	-	-	NIL
Budget Savings	£578k	£488k	£90k
Net Impact			
Use of Reserves	£589k	£679k	(£90k)
Balanced Budget			-

22. As Table 2 indicates, in comparison to the proposed budget strategy, the decisions taken to agree the final budget for 2021/22 resulted in a budgeted increase in costs of £90k which was met by an increase in the use of reserves. As Councillors consider the budget going forward, it should be noted that reserves are a finite resource and as such they cannot be relied on to meet the ongoing cost burden of these decisions indefinitely.

Budget Savings in 2021/22

23. As the table above shows, the Council agreed a range of savings totaling £488k to achieve a balanced budget for 2021/22. Progress in relation to the delivery of these savings will be reported to Councillors as part of the regular budget monitoring reports to the Policy and Resources Committee. In the meantime, the following narrative provides an update on progress as at the time of writing:-

- **Organisational Review (£50,000)** – This saving comprises £18k which is a net saving from the deletion of a Senior Engineer, replaced by a Trainee Engineer. which has been implemented and achieved. The balance of £32k is for staff turnover and there are no known issues that prevent this from being achieved in 2021/22;
- **Review of Opening Hours of Number One Market Street (£10,000)** – options to deliver this savings are currently being developed although the re-opening of Number One Market Street has been delayed as a consequence of the continuing impact of the Covid-19 Pandemic;
- **Review of Telephony/Related IT (£10,000)** – A proposal to replace the Council’s Telephony System is currently being developed and will be brought for consideration by the Policy and Resources Committee in due course;
- **Review of Nelson Indoor Market (£80,000)** – As Councillors will be aware, it was planned that the Nelson Indoor Market would close at the end of March 2021. In response to requests from Market Traders to allow a period to sell off stock, it was agreed to close the Market at the end of May 2021;

- **Review of the ACE Centre (£88,000)** – This savings assumes that the ACE Centre closes on 30th September 2021. In agreeing this saving, however, Councillors requested a review be undertaken on the potential options for the future use of the ACE Centre with a view to avoiding closure. This review is planned for July 2021;
- **Review of Liberata Contract (£250,000)** – Councillors will be aware that the Council has been in dialogue with Liberata to reduce the Unitary Charge payable for the Benefits Service (reflecting a change in the volume of activity due largely to the introduction of Universal Credit). Although subject to formal agreement, a reduction of £200,000 in the Unitary Charge has been provisionally agreed along with a one-off payment of £100,000.

Estimated Financial Impact of Covid-19

24. For 2021/22, the Council has been provided with a grant of £633k towards the additional costs arising from the ongoing impact of the Covid-19 Pandemic. As reported to the Committee in February 2021 as part of the Budget Setting report, this additional grant was earmarked to meet an anticipated shortfall in income in areas such as Planning and Council Tax Collection, the additional cost of holding Covid-secure Elections and the additional costs of the Pendle Leisure Trust.
25. At this stage, given the emergence of variants of concern which, along with the gradual relaxation of restrictions in accordance with the National Roadmap, it is too early in the financial year to say what cost pressures the Council (and its partners) will face from the continuing impact of Covid-19. This matter will be picked up in more detail in the Strategic Monitoring Reports which are submitted for consideration by this Committee on a regular basis.

Medium Term Financial Plan 2022/25

26. Work has been ongoing to update and roll forward the Council's MTFP for the period 2022/25. This takes into consideration decisions on the budget for 2021/22 and the outcome of this work forms the basis of this report.
27. Table 3 below provides a summary of the MTFP 2022/25 whilst a more detailed analysis is provided at [Appendix B](#) (which, at this stage, excludes any use of reserves):-

Table 3: Medium Term Financial Plan 2022/25 (No Use of Reserves)

	Approved Budget 2021/22 £000	Forecast 2022/23 £000	Forecast 2023/24 £000	Forecast 2024/25 £000
Net Expenditure	12,880	14,265	14,925	15,715
<u>Less</u> Retained Business Rates	(4,093)	(4,019)	(3,944)	(3,871)
<u>Less</u> Revenue Support Grant	(1,170)	(1,194)	(1,218)	(1,242)
Fiscal "Gap"	7,617	9,052	9,763	10,602
Collection Fund Surplus	3,428	190	190	190
Council Tax Income	(6,596)	(6,761)	(6,930)	(7,103)
Local Funding "Gap"	4,449	2,481	3,022	3,689

Source: Appendix B

28. Table 3 shows, **before considering the use of reserves**, a projected deficit on the Council's MTFP of £3.7m by 2024/25 with the most immediate issue being a budget shortfall in 2021/22 of £2.5m **assuming no action is taken to deal with this shortfall**.
29. The MTFP has been developed on the basis of a range of assumptions. It reflects the ongoing cost of current service delivery and takes into consideration the decisions Councillors have taken when setting the latest budget. The key assumptions are set out in [Appendix C](#) and the Policy and Resources Committee is asked to note these at this stage.

The Financial Strategy 2022/25

30. The Council has an established Financial Strategy which remains relevant albeit as challenging notwithstanding the impact of Covid-19. It is based on the following themes:-
- **Growing** the Council's income by increasing taxable capacity, both in Business Rates and Council Tax. This will focus on using the funding mechanisms now in place for local government being:-
 - the Business Rate Retention Scheme which will mean that the Council must continue to actively consider ways in which it can increase income from business growth to ensure that funding for services can be maintained; and
 - the Council Tax System which will mean implementing Council Tax increases at the maximum possible and actively facilitating and encouraging the delivery of new housing.
 - **Charging** for services, raising income which will mean that it is possible to continue providing services that resident's value. This involves reviewing the level of fees and charges, reducing the subsidy on services and considering the introduction of new fees and charges;
 - **Saving** costs by, for example, reviewing how the Council delivers services, doing things differently and more efficiently, scaling services to appropriate levels within the resources available to the Council, for example Digital by Default and working with partners, including local town and parish councils to sustain local facilities. Reducing net costs also includes increasing revenue and implementing the Council's Commercial Strategy;
 - **Stop** spending on lower or non-priority areas.
31. The following narrative provides more detail on each of these approaches.

Growing

Growth in Retained Business Rates Income

32. The current Business Rates Retention Scheme continues to offer the opportunity to increase the Council's income by increasing the amount of retained business rates. This does, however, require growth in the business rates tax base, i.e. more business ratable properties to be provided in the Borough. This needs to be over and above the level at which the tax base is reduced each year as a result of the Appeals process.

33. To put this into some context, the Council's business rates tax base is currently £52.5m. In broad terms, for every £1.5m growth in the Taxbase (equivalent to, say, an additional Superstore), the Council's income would increase by c£299k (adopting the current standard NNDR multiplier of 49.9p and assuming no other changes such as the award of reliefs).
34. There is, therefore, a clear link here with a strategic approach to economic growth and regeneration within the Borough. Examples of the work undertaken to date include plans to extend the existing Lomeshaye Industrial Estate and the redevelopment of Northlight. Phase 1 of the Extension is underway and, whilst not within the Council's control, planning consent has been given for Phase 2 of the Extension. The redevelopment of Northlight is well progressed with Lancashire Adult Learning, the Leisure Box and In-Situ in occupancy. The first phase of the residential development of 36 units is almost practically complete and work on the development of a further 42 residential units and the conversion of the Northlight Shed to Business Incubator units is progressing.
35. As with other aspects of the Council's activity, however, the impact of Covid-19 on business rates could be significant. In direct terms, collection of business rates income may be affected and this will need to be carefully monitored.
36. Indirectly, the economic shock from Covid-19 has already resulted in some business closures and, for businesses that survive, growth plans may take longer to deliver than planned. And given the furlough scheme will remain in place until later in the year and with the availability of significant Government support in the short term, the full scale of the impact on the local economy is not likely to be known for some months. Notably, the number of new appeals from businesses to reduce their business rate liability due to a material change of circumstances has increased. Whilst the Council has made provision for appeals, this will need to remain under constant review as the Valuation Office processes outstanding appeals.
37. It will be important for the Council to engage with business early to understand the impact and to that end, the Council is in discussion with Business Leaders through the Pendle Vision Board and speaking directly to businesses to gain intelligence on this matter and to ensure that, where it is possible to do, appropriate business support is identified.
38. It is also worthwhile noting that, as previously agreed by this Committee, a new Economic Recovery and Development Strategy is being produced in conjunction with the Pendle Vision Board to provide the basis on which the Council and its partners will both respond to the impact of Covid-19 and build on the success of the previous Jobs and Growth Strategy. A draft of the new Strategy will be presented at the next meeting of this Committee.

Pooling of Business Rates

39. The Council has remained a member of the Lancashire Business Rates pool for 2021/22. The benefit of the pooling arrangement is that the Council retains the levy on business rates growth which otherwise would be paid to the Government; the downside risk is that as an individual Council any protection afforded by Government's safety net mechanism is foregone.

40. This emphasises the importance of effective monitoring and reserve provisioning to mitigate this risk and the processes to do this are in place. Equally, the Council's reserves include c£1.963m for Business Rate Volatility as a contingency for such changes.

Growth in Council Tax Income

41. The amount of Council Tax income collected by the Council is the function of the rate of Council Tax, the taxable capacity of the Borough and the rate of Collection. The rate of Council Tax is, within the bounds of Government's Referendum Principles for Council, a matter for Councillors to determine on the basis of Officers recommendation.
42. Increasing the taxable capacity of the Borough is dependent on a range of matters not least the provision of new housing. As well as seeking to develop residential schemes using Council-owned land and assets, primarily through our joint venture arrangements with Barnfield and Together Housing, there is a continuous process of reviewing extant planning consents for other developments to determine to what extent the Council might be able to facilitate delivery of these schemes. Indeed, partly due to this work and up until the Covid-19 Pandemic, there had been a notable upturn in the number of new developments coming forward for consideration by the Council. What impact Covid-19 will have on the development of new housing remains to be seen.
43. The target Collection Rate for Council Tax in 2021/22 is 95.0% of in-year Council Tax due. As indicated above, given the impact of Covid-19 is likely to have on local residents, achieving this collection rate may prove to be challenging. Looking ahead, consideration will need to be given to the level of collection as part of the Council Tax Setting process.

Charging

44. The Council reviews its fees and charges annually. The next review will be undertaken in the coming months and reported to the Committee in September. In doing so, the opportunity will be taken to revisit the introduction of charges for services that residents value, for example, reviewing the charging policy for the collection of Garden Waste. Again, this is another area where consideration of the impact of Covid-19 will have to be given.

Saving

45. Whilst the Business Rate Retention Scheme does offer some opportunity to increase the Council's income, any growth in the near term is unlikely deliver the scale of additional income required to offset the reduction in core funding. Any measures considered now as a means of increasing income in the above areas could take a significant time to implement before additional income flows are generated.
46. Equally, the Council's ability to charge for services or reduce the extent of discounts will not, in isolation, generate sufficient additional income to make up for the funding shortfall faced by the Council. In view of this, the Council must continue to identify ways in which it can reduce expenditure in other ways to ensure that it maintains a balanced budget over the medium term.

Stop

47. This is a more recent theme within the Financial Strategy and one that continues to be the least developed theme under the current strategy. The difficulties of being explicit as to what are not priorities for the Council are acknowledged. Nevertheless, given the outlook for the Council's core funding it will be necessary to address this to help ensure limited resources are used optimally to deliver what are the key priorities for the Council.
48. A key consideration of this element of the strategy is to determine to what extent the Council can encourage the delivery of some services by other bodies so that the Council can stop providing them. A prime example of this is the success of the transfer of services and assets to Town and Parish Councils and the Council will want to consider to what extent this part of the Strategy can continue to be delivered.
49. Indeed, in this context, it is recommended that Councillors set out those areas of services/assets that might be considered for transfer and request that Officers explore this with the relevant Town and Parish Council.

Strategy for Budget Savings in 2022/23 to 24/25

50. The Council has a good track record of delivering savings since 2010, from when savings totaling c£10m have been realised. Many of these savings have been achieved whilst minimising the impact on street level services which Councillors identified as a priority. However, the ability to deliver further efficiencies is increasingly limited; savings of the magnitude set out above will mean reductions in frontline services and will require Councillors to take difficult decisions in this regard. The proposed strategy for saving costs builds on the work already undertaken in recent years.
51. Councillors have previously resolved that Management Team should develop a 3-year strategy comprising a package of savings options acknowledging that this, for example, would involve strategic reviews of the delivery a range of services. Details of the Strategy have been included in previous reports but some of the key themes for the development of these savings options include:-
 - maintaining the staffing structure under review to ensure it remains lean but sufficiently resilient to cope with the changes in the delivery of services as the resource base reduces;
 - reducing funding for discretionary services to ensure that sufficient resources are available to fund the Council's statutory obligations and street level services where possible;
 - establishing whether any of the changes made in response to the Covid-19 Pandemic can be maintained thereby reducing the cost of running the Council. For example, the use of virtual and paperless meetings and homeworking to reduce accommodation costs;
 - continuing the programme of activity working with Town and Parish Councils to retain the delivery of services and community facilities locally;

- reviewing the delivery and scope of leisure and cultural services to ensure they continue to offer value for money. This will mean considering in detail the recommendations arising from the Strategic Review of Leisure Services undertaken previously;
- changing the way residents access Council Services with a continued emphasis on self-serve / automated processes for transactional type activity (i.e. as part of our move to become 'digital by default'). Again, the Covid-19 Pandemic has 'forced' the delivery of services virtually and the opportunity needs to be taken to retain this where possible;
- reviewing the efficiency, scope and delivery of key frontline services such as Refuse Collection, Street Cleansing and Grounds Maintenance and associated vehicle requirements;
- exploring the scope for driving out further efficiencies from the Council's partnership arrangement with Liberata. Given the amount of Unitary Charge payable to Liberata, the Council will want to consider what scope there is to reduce this cost whilst maintaining service delivery;
- undertaking a review of service standards to ensure that the Council continues to deliver good services but at the least cost;
- undertaking technical reviews (in areas such as provisions, Minimum Revenue Provision, Housing Benefit Subsidy, the use of Flexible Capital Receipts) to determine what scope there is to reduce costs to the Council;
- reviewing Council Tax collection rates, discounts and exemptions to determine what scope there is to increase the Council Tax yield. This could also include a review of the Council Tax Support Scheme;
- working in partnership with other organisations to share the costs of service delivery and in particular with Burnley BC who have also appointed Liberata as their Strategic Partner.

52. The Committee should note that this is not an exhaustive list. Nevertheless, work to develop these options will commence in the near future and will be subject to more detailed consideration with any proposals reported to Councillors at the appropriate time. Ideally, as has been the case in the previous budget rounds, budget savings proposals will be brought forward to each meeting of Council for consideration. To this end, it is proposed that options for savings be submitted to meetings of Council in October/November with final decisions on the budget to be taken in February 2022.

53. And recognising the constructive way in which the Councillors from all Political Groups have previously worked together on the development of budget proposals, the Committee is asked to re-appoint a Cross-party Budget Working Group of 7 Councillors (4 Con: 2 Lab: 1 Lib Dem) to develop the options for savings for 2022/23 (giving consideration where necessary to options over the MTFP period).

Strategy for Using Reserves and Balances 2022/25

54. As Councillors know, balances and reserves are a finite resource which cannot be relied on indefinitely to balance the budget. In support of the above strategy, and for the purposes of this update of the MTFP, the current strategy is assumed:-

- *the Minimum Working Balance will be maintained at £1m over the life of the Medium Term Financial Plan;*
- *Committed (Specific) Reserves will be used only for the purposes for which they have been set aside and will be subject to review; where possible, as part of the annual review of reserves, reserves will be amalgamated with the Budget Support Reserve to bolster support for the budget; and*
- *Subject to confirmation of the outturn position for 2020/21, an amount of £1.5m will be used from the Budget Support Reserve over the next three years*

55. Table 4 below shows the impact of the applying this Strategy on the Council’s Medium Term Financial Plan.

Table 4: Use of Balance and Reserves and the Impact on the MTFP

	Approved Budget 2021/22 £000	Forecast 2022/23 £000	Forecast 2023/24 £000	Forecast 2024/25 £000
Local Funding “Gap” (per Table 5 above)	4,449	2,481	3,022	3,689
Use of Budget Support Reserve	(679)	(500)	(500)	(500)
Use of Specific Reserves	(3,770)	(561)	(150)	(150)
Total Use of Reserves	4,449	(1,061)	(650)	(650)
Residual Funding “Gap”	-	1,420	2,372	3,039
Year on Year Savings Required	-	1,420	952	667

56. Over recent years the Council has suffered a significant reduction in funding but has been able to rely on reserves to cushion the impact and reduce the level of in-year savings required.

Draft Budget Strategy 2022/25

57. Looking specifically at the Budget Strategy for **2022/23 to 2024/25**, it is proposed that the key elements are as follows:-

- pursue, the Growing, Charging, Saving and Stop strategy as set out above (with a specific focus on the development of savings options as set out);
- no budget growth without equivalent savings being proposed;

- use of £1.5m from the Budget Support Reserve in support of the budget (plus the use of specific reserves where these are required);
- undertake a review of remaining Reserves and Balances to determine the scope and implications of ‘freeing up’ committed reserves in support of the Budget Strategy Reserve;
- No increase in prudential borrowing other than that already assumed in the Medium Term Capital Programme unless such borrowing results in ongoing revenue savings (the affordability of the *capital programme will be reviewed in parallel with the Revenue Budget*).
- An increase in Council Tax by the maximum permissible amount (which, on the basis of current information would be 1.99% resulting in a Band D Council Tax charge of £281.50).

58. Applying this Strategy requires estimated budget savings of c£3m (as per Table 4 above) to be identified over the next three years, all of which should be ongoing reductions in the Council’s budget. The extent to which budget savings are delayed will increase the use of reserves.

Budget Consultation

59. The approach to consultation as part of the preparation of the budget for 2022/23 will form part of the work programme and be reported via the Committee but will include consultation with staff and Unions.

60. In relation to the Area Committees, reports will be submitted to the January cycle of meetings. The resolutions of each Area Committee will be reported to this Committee. With respect to the business community, budget papers will be sent to the East Lancashire Chamber of Commerce following the December meeting of the Committee.

61. The Committee is asked to consider whether the Budget Working Group should consider whether any further consultation should be undertaken to inform the Council’s development of the budget.

Next Steps

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

Table 7: Proposed Forward Timetable for the Development of the Budget 2022/23

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 2020/21 Capital Outturn Report 2020/21 Review level of Reserves post 2020/21 Out-turn	

Date	Action	Status
September	Mid-year review of savings options – report to P&R Committee	
October	Refine Medium Term Financial Plan to 2024/25 – 1 st tranche of savings to Council for decision Comprehensive Spending Review 2021 ?	
Nov	Early drafting of Budget for 2022/23 and Revised Budget for 2021/22	
Nov/Dec	Provisional Local Government Finance Settlement 2022/23 P&R Committee considers initial budget submissions (revenue & capital) – 2 nd tranche of savings to Council for decision.	
Dec-Jan 2022	Proposed Draft Budget 2022/23 developed	
Jan	Final Local Government Finance Settlement 2022/23	
Feb	P&R Committee recommends Budget and Council Tax to Council	
Feb	Council sets final Budget and Council Tax for 2022/23	

IMPLICATIONS

Policy

63. The forward projections in the report represent a significant challenge to service provision in the short to medium term. There is a need, therefore, to put in place a strategic approach to future financial planning with a particular focus on a move to a more sustainable budget base over the medium term planning period. The development of the Financial Strategy represents the next stage in the process of the Council's strategic financial planning process.
64. The report recommendations include retaining the Cross-party Budget Working Group whose remit should be to develop charging and savings proposals to reduce the Council's net expenditure by £1.4m for consideration in the development of the budget for 2022/23, and to identify further charging and savings options to deal with the balance of the budget deficit to 2023/25.

Financial

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

Legal

66. There are no legal implications arising from this report although the Committee will appreciate that it is a statutory requirement for the Council to set a balanced budget each year.

Risk Management

67. The risks associated with the Council's Financial Strategy and the Medium Term Financial Plan are as previously set out. The Covid-19 Pandemic has had a significant impact on the Council's activities and continues to do so. This represents a further risk to the financial position of the Council.
68. The key risks for the Council highlighted in this report is the future funding provided by the Government for both revenue and capital spending and the impact of Covid-19. These matters taken together pose a significant business risk to the Council and requires effective action to be taken.
69. There is a need, therefore, to put in place plans to make substantial savings to achieve a balanced budget and this will inevitably impact on the Council's ability to maintain existing service levels.
70. To help address the funding deficit, this report sets out a strategy to grow income, charge for services and to save costs. This is underpinned by using reserves over a three-year period as a means of 'smoothing' the amount the Council needs to save to achieve a balanced budget.
71. The most immediate issue for the Council is develop plans to save £1.4m in 2022/23 as well as developing other options which will reduce the Council's net expenditure by £3.0m over the period to 2024/25.
72. There remains a great deal of uncertainty regarding the timing and implications of reforms to the business rates retention system combined with the outcome of the Spending Review and the Fair Funding Review. The Government has reiterated its commitment to implement a system whereby 75% of rates income is retained locally but much more detailed work and analysis is required before the implications of this for Pendle can be accurately assessed.

Health and Safety

73. There are no health and safety implications arising from this report. The revenue budget will, once approved, include provision for ensuring the Council can meet its health and safety obligations as required.

Sustainability

74. As with health and safety implications, there are no sustainability implications arising directly from this report but the proposed budget includes provision, where necessary, to progress issues of sustainability for the Council.

Community Safety

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

Equality and Diversity

76. In compliance with the Council's duties on equality and diversity, changes in the budget that impact on the provision of services will need to be properly assessed to ensure Councillors are fully aware of the impact on the community. An Equalities Impact Assessment will be undertaken on proposals as they are developed where this is considered necessary to do so.

APPENDICES

Appendix A – Summary of Reserves to 2023/24 (provision out-turn pre- Audit).

Appendix B – Medium Term Financial Plan 2022/23 and 2024/25

Appendix C – Key Assumptions for Medium Term Financial Plan 2022/23 to 2024/25

LIST OF BACKGROUND PAPERS

Papers held in Financial Services