



REPORT FROM: CHIEF FINANCE OFFICER

TO: SPECIAL BUDGET POLICY AND RESOURCES COMMITTEE

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GENERAL FUND REVENUE BUDGET 2022/23

PURPOSE OF REPORT

The Purpose of the report is to consider the proposed General Fund Revenue budget and other related matters for 2022/23 and to enable the Policy and Resources Committee to make a recommendation to Council at its meeting on 24th February 2022 on the level of Council Tax to be set for the financial year 2022/23.

RECOMMENDATIONS

- (1) The Policy and Resources Committee is recommended to:-
- a) make recommendations to the full Council on 24th February 2022 on the General Fund Budget Requirement for 2022/23;
 - b) in relation to Pendle Leisure Trust, subject to consideration of the saving proposals for 2022/23, agree to use Council Reserves to pay off the outstanding debt owed by PLT and to release the revenue saving back to Pendle Borough Council by reducing the PLT Management Fee;
 - c) subject to the Policy and Resources Committee's consideration of the budget proposals in this report, to recommend to Council on 24th February 2022, a Band D Council Tax for 2022/23 of £281.50, being an increase of £5.49 (1.99%) on the current level of Council Tax;
 - d) require each Service to operate within its budget for 2021/22 once approved, and that these budgets be cash limited and subject to regular monitoring and control.

REASON FOR RECOMMENDATIONS

To comply with statutory requirements to determine a balanced budget and council tax for the forthcoming financial year.

ISSUE

1. This report sets out the current budget position for Pendle Borough Council for 2022/23 and highlights the existing gap in funding which was identified in previous reports to the Committee. The report focuses the Council's financial strategy towards the agreed transformation programme and doesn't repeat the existing themes of Growing, Charging, Saving and Stopping. For completeness a copy of the Financial Strategy 2022/23 to 2024/25 is shown in Appendix A.

Medium Term Forecast

2. Members will be aware of the Authority's latest Medium Term Financial Plan which was reported to Policy and Resources Committee on 24th June 2021. This set out a position for the current year of 2021/22 which requires reserves of £0.680m in order to achieve a balanced position.
3. It also set out further potential budget shortfall of £1.920m, £2.873m and £3.533m for 2022/23, 2023/24 and 2024/25 respectively, £8.332m in total and shown in the Table 1 below.

Table 1 – Medium Term Forecast as at 24th June 2021

£'m	2021/22	2022/23	2023/24	2024/25
Net Expenditure	14.442	15.362	16.291	17.081
Less Retained Business Rates*	-5.419	-5.345	-5.270	-5.197
Less Revenue Support Grant	(1.170)	(1.194)	(1.218)	(1.242)
Core Government Grant	-0.577	-0.142	0.000	0.000
Gap before Council Tax	7.276	8.681	9.803	10.642
Council Tax (at 1.99%)	(6.596)	(6.761)	(6.930)	(7.103)
Funding Gap	0.680	1.920	2.873	3.539

* - Includes Section 31 Grant

4. This is a stark position for the Council after many years of tight financial control and austerity which saw the level of central Government funding reducing whilst also capping Council Tax increases.
5. In previous years, Finance reports have focused on the key themes of; Growing, Charging, Saving and Stopping and many different options have been explored including reductions in staff number as Managers look to slim down Establishments whilst still providing the same level of services.
6. The Growth element is now struggling as the economy looks to grow back slowly from the impact of the pandemic and this can be seen in both the TaxBase figures for Council Tax and the Business Rate figures including the multiplier which has not been increased.
7. The charging and saving elements were included in a report to Policy & Resources Committee on 25th November 2021 of the work done by the Budget Working Group. The Committee agreed the following;
 - Cemetery fees – 50% premium for non-residents.
 - Increased Garden Waste charge based on an increase of £2 annually for both 2022/23 and 2023/24.

- Reduction in mechanical street sweeping.
- Reduction in manual street sweeping.
- Revised verge maintenance arrangements.

The total impact of these changes will be to reduce the net expenditure budget down by £0.073m in 2022/23.

8. Other factors in the Medium Term Forecast are set out below;

- **Pay Award**

The pay awards for both 2021/22 and 2022/23 are still to be agreed. Government initially set a public sector pay freeze in 2021/22 but it now looks likely that pay awards of closer to 2% could be agreed and this is what the June 2021 forecast assumed so there is no change in the position.

- **Inflation**

The economy has seen inflation grow beyond the Bank of England target rate of 2%, with inflation reaching 5.1% in the December figures published by Office of National Statistics. This has a negative impact of the forecast as the largest contract of the Council is based on these inflation indices. In addition the cost of other direct purchases such as fuel and gas will also have a material impact on the budgets in future. The increase in inflation is new pressure over and above the assumed position from June 2021 by at least £0.070m. The key areas being increases in the Liberata contract and gas and electricity price increases.

- **Pendle Leisure Trust (PLT)**

The Management Fee for Pendle Leisure Trust is currently set at £1,357,140. This is set to reduce by £0.085m in 2022/23 taking account of the full year effect from the agreed closure of the ACE centre. The lease for the ACE Centre will then need to revert back to Pendle Borough Council.

- **Housing Growth and TaxBase increases**

The actual TaxBase for the Authority has remained flat between 2021/22 and 2022/23 with the increase in discounts offsetting the increase in the number of new dwellings, this is a slight downward position when compared to the forecast. Future increases in the TaxBase look weak in the medium term.

- **Business Rates**

The Forecast predicted a 1.875% reduction in Business Rates in each of the three years and given the continued slow recovery from the pandemic there is no reasonable basis to uplift this position at this stage.

Comprehensive Spending Review

9. The Government Announced the Comprehensive Spending Review at the same time as its Annual Budget on 27th October 2021. The 3 Year Settlement figures allows us to look across the next three years at the total Departmental Expenditure Limits for the Department for Levelling Up, Housing and Communities (DLUHC). Page 108 of the Autumn Budget and Spending Review 2021 set out the following figures for Local Government (see Table 2 overleaf).

Table 2 – Department Expenditure Limits for Local Government

Local Government

Table 4.9: Local Government

£ billion	Outturn 2019-20	Outturn 2020-21	Baseline 2021-22	Plans 2022-23	Plans 2023-24	Plans 2024-25	Average annual real terms growth	
							2021-22 to 2024-25	2019-20 to 2024-25
Resource DEL ^{1 2}	7.5	8.6	9.1	10.8	12.1	12.7	9.4%	8.4%
of which: Adult Social Care reform	-	-	-	0.2	1.4	2.0	-	-

10. Adjusting for Adult Social Care reform which is an Upper Tier service, these figures show a real terms increase in funding for Local Authorities in the first year of the settlement 2022/23 followed by a flat position in the following two years from £9.1bn in 2021/22 to £10.6bn in 2022/23 then £10.7bn in 2023/24 and 2024/25.
11. This indicates that the 2022/23 position is likely to be as good as it will get until 2025/26. This, at least, provides some certainty over the next 3 years for the Council but allows means that 2020/23 will be the 'best' year of the three in the next forecast.

Provisional Finance Settlement

12. The Government could have announced a 3 year Local Government Settlement, however they chose to make a single year announcement and to reserve judgement for future years. What the Provisional Settlement did hold was both good and bad news for Local Government. The impact for Pendle split out across the four main funding areas is set out below;
- **Council Tax**
The Settlement assumes and allows for an increase of 1.99% in Council Tax with any increase above 2.00% being subject to a local referendum. This increase is already included in the Forecast.
 - **Business Rates**
There is no increase in the Business Rate multiplier so no growth in Business Rates income but with additional pressure on collection as businesses struggle to recover by the effects of the pandemic. Government have made up the difference in the multiplier via an external grant.
 - **Revenue Support Grant (RSG)**
The Settlement increased the baseline RSG allocation from £1.170m to £1.206m which is £0.036m or 0.6%.
13. Further funding for Businesses effected by the Omicron variant was announced in December 2021 and a report on the Omicron Grant scheme is included on elsewhere on this agenda. This funding is ring fenced for business and these monies sit outside of the Council's finances. Any monies not spent will be returned to Central Government.
14. The Government has made no further provision in respect of general fund Covid-19 funding so any demands on the Authority will need to be funded from existing resources and unspent

Covid grant carried forward from previous years.

15. The Provisional Settlement did include some good news for the Authority with the extension of some time-limited funding and the introduction of new funding which is set out below;

- **New Homes Bonus**

Government extended the scheme which boosted the assumed position by £0.321m to £0.462m. This is a good position for the Authority in isolation but the future of NHB remains uncertain and the Council's position relative to other Authorities in its Nearest Neighbour model and across Lancashire is less impressive with Pendle ranked 18th out of 23 Authorities in terms of gross grant received.

- **Lower Tier Services Grant**

This was introduced in 2021/22 for one year but has been rolled on again and this boosts the assumed position by £0.183m. There is no future guarantee over this grant.

- **Central Services Grant**

This is new for 2022/23 and will form part of the base funding in future years so can be included in future years' figures to some extent though Government have reserved the right to amend the allocation methodology.

The overall position for the Authority as set out by Central Government is shown below;

Table 3 – Movement in Core Spending Power

£'m	2021/22	2022/23	Movement
Council Tax Requirement	6.596	6.767	0.171
Settlement Funding Assessment	5.242	5.278	0.036
Base Funding	11.838	12.045	0.207
<i>Additional Grant Funding</i>			
New Homes Bonus	0.168	0.462	
Lower Tier Services Grant	0.173	0.183	
2022/23 Services Grant	-	0.281	
Core Spending Power	12.179	12.790	0.791

16. The Table illustrates that the Council's total Core Spending Power has increased between 2021/22 and 2022/23. However, the Comprehensive Spending Review shows that outside of Council Tax rises, its Core Spending Power is unlikely to increase until 2025/26, and indeed a static position is likely to be the best case scenario.

Fair Funding Review

17. The impact of the Fair Funding Review remains unclear. District Council Network (DCN) provided the following analysis in respect of the Fair Funding Review;
The Government will consult the sector next year about "updating the system". This is what used to be known as the Fair Funding Review. DLUHC officials have clarified that this is likely to encompass a response to the review of New Homes Bonus. They were less clear that business rates reset would be in scope. But, in general, we can expect there to be a comprehensive review of the distribution of local government funding. No precise date is stated for implementation but the implication is that changes will take effect for April 2023.

Draft Budget for 2022/23

18. The Provisional Settlement has provided some additional funding for the Authority but this funding is time limited with no guarantees over future allocation. To that degree this settlement effectively provides a further 12 month respite from the inevitable financial decisions that the Authority faces.
19. In fact the 'gap' between expenditure and income grows each year as the Core Spending remains flat whilst the expenditure base increases and financial decisions will only become harder as we move forwards.
20. In order to reach a budget for 2022/23, Members will be aware of the number of changes to key personnel within Pendle Borough Council during the last 12 months; namely the Chief Executive, Chief Finance officer (Section 151 Office) and Financial Services Manager (Deputy Section 151 Officer).
21. Members will be also be aware that a number of savings were discussed at the Policy & Resources meeting on 25th November 2022 when some increases to fees and charges as well as savings were agreed whilst others were not supported. These savings have not been re-proposed at this stage, instead Council will look to revisit these and other options for redesigning services as part the wider transformation programme set out below.
22. At the Council Meeting on 9th December it agreed to establish a Reserve of £0.250m to allow the Authority to pump prime a programme of transformation to enable it to set out ways in which it can produce a balanced budget in future years.
23. To this effect, the Council is therefore seeking to progress the transformation programme over the next 12 months in order to establish a programme of change from which are structured savings plan can be brought in to effect from 2023/24 onwards. However, one further saving is suggested for 2022/23 and this is set out below;

Pendle Leisure Trust

24. A saving of £165,000 is being from PLT for 2022/23 onwards. This savings can be split in to two areas;
 - £0.060m can be found by using Council reserves to pay off the outstanding debt still owed by PLT to Pendle Borough Council. Members approved the set aside of £1.4m to fund a shortfall in funding for PLT in 2021/22 but £0.275m will be required and there is sufficient balance to pay off the outstanding debt of £0.77m and also leave some potential funding for Invest to Save projects. Repaying off this debt releases an annual revenue saving of £0.060m in the Management fee.
 - The balance will need to be found by PLT through a Transformation Programme similar to the one PBC are looking to implement.

The Management Fee for PLT for 2022/23 will therefore be £1,107,140.

25. Taking account of all changes in inflation, grant, growth, savings and charges between June 2021 and February 2022 the Council budget for 2022/23 can be summarised as follows;

Table 4 – 2022/23 Budget Summary

2022/23 Revenue Budget	(£'m)
Net Cost of Services	15.652
<i>funded by</i>	
Business Rates, Collection Fund Surplus & S31 Grant	-5.113
Revenue Support Grant	-1.170
Core Government Grant	-0.926
Council Tax Income	-6.741
Reduction in Pendle Leisure Trust Management Fee	-0.165
Use of Earmarked Reserves*	-0.561
Budget Gap to be Met by General Reserves	0.975

* - Use of Reserves as per bullet points 2 and 3 below

Reserves and Balances

26. Excluding Section 31 Business Rates grant, the Council's general balances as at 31st March 2021 were £9.955m. A strategy for the use of Balances and Reserves is shown below;

- the Minimum Working Balance is set at £1.0m
- The New Homes Bonus Reserve will continue to be used to support the Council's budget in 2022/23 with £0.250m allocated in the Medium Term Forecast.
- £609k from the Business Rates Volatility Reserve which will be used in 2022/23 to 2024/25 towards the cost of the Collection Fund NNDR deficit for 2020/21 which, in accordance with the Government guidance, can be recovered in those years
- Committed (Specific) Reserves will be used only for the purposes for which they have been set aside and will be subject to an annual review.
- In the absence of sufficient savings to achieve a balanced budget, the Budget Strategy Reserve will be used to support expenditure although it should be acknowledged that this is a finite resource.

27. Table 1 of the report showed that the current three year forecast predicted that £8.332m of Reserves would be required to balance the Council's budget until 2024/25. Updating the starting position reduced the funding gap in 2022/23 but even on a best case scenario this gap continues to grow again so that £8.262m of reserves is still required over the three years to 2025/26.

28. The Transformation Programme therefore remains a key risk for the Authority to deliver financial stability in future years.

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

29. In accordance with Section 25 of the Local Government Act 2003, the Chief Finance Officer (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.

- Acknowledging the contents of this report and setting this within the wider control framework and financial management arrangements within the council, I consider the Council's budget for 2022/23 in isolation to be robust.
- 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 to take the necessary action to balance expenditure with ongoing resources by means other than the use of reserves.

Council Tax 2022/23

30. From a financial planning perspective the assumption on Council Tax for 2022/23 has remained unchanged from that reported to the Policy and Resources Committee in June 2021 in that an increase of 1.99% would be applied.
31. The final Settlement is likely to confirm that the Council Tax Referendum Principles would remain as previously announced – for District Councils an increase in Council tax would be deemed excessive if it is 2% or more hence the proposal to increase the Council Tax by 1.99%.
32. Increasing Council Tax by 1.99% will give rise to a Band D charge from £276.01 to £281.50, an increase of £5.49. Over 60% of our dwellings are in Band A for which the equivalent increase would be £3.52 giving rise to a Band A charge of £184.01, up from £180.41 in this year.
33. If this increase is not agreed then the Council will have to identify and implement additional savings for equivalent amounts. If Councillors were minded to approve no increase in council tax for 2021/22, then the loss of income from Council Tax would be £131k for next year in isolation and £393k cumulatively over the a three year period increasing the level of savings required by the equivalent amount.
34. At this time an increase in Council Tax of 1.99% is purely a financial planning assumption. It is acknowledged that no decision has yet been taken by Councillors in connection with this and Full Council will ultimately determine the level of Council Tax for 2022/23 when it meets on 24th February 2022.
35. Given the financial position facing the Council, it is recommended that the Council should increase Council Tax for 2022/23 by the maximum permitted i.e. 1.99% (an increase of £5.49 a Band D property which equates to c10.5p per week (c7p per week for Band A properties).
36. The Policy and Resources Committee may wish to consider and recommend to Council an alternative level of Council Tax. To assist Councillors in their deliberations on this matter, Appendix E shows a range of Council Tax requirements and associated Council Tax levels, combined with the impact on the budget, at different tax levels.

Table 5 – Potential Increases in Council Tax

% Increase	Taxbase	Band D Council Tax	Total Income	Shortfall Against 1.99% Increase
1.99%	23,941	£ 281.50	£ 6,739,341	£0
1.75%	23,941	£ 280.84	£ 6,723,482	-£15,859
1.50%	23,941	£ 280.15	£ 6,706,963	-£32,378
1.00%	23,941	£ 278.77	£ 6,673,923	-£ 65,418
0.50%	23,941	£ 277.39	£ 6,640,884	-£ 98,457
0.00%	23,941	£ 276.01	£ 6,607,845	-£ 131,496

37. The above analysis only considers the Council Tax charge made by Pendle Borough Council. Council Tax charges for the other authorities (Lancashire County Council, Police and Crime Commissioner and Fire Authority and Town/Parish Councils) are not considered in this report.

Group Proposals

38. At this meeting, the Policy and Resources Committee is requested to make recommendations to the Council on the Council Tax to be levied, the General Fund Revenue Budget Requirement and the Capital Programme.
39. Each Group also has the opportunity to present alternative budget proposals for consideration by Council. The Rules of Procedure in relation to the Council's Budget are as follows:-

Advance Notice of New Budget Proposals at the Budget Council Meeting

(1) At a Special Budget Council meeting no budget proposal which is not apparent from the agenda and reports for the meeting may be moved by way of motion or amendment unless written notice of it, signed by the Member(s) giving it, has been delivered to the Corporate Director not later than 5pm three clear working days before the date of the meeting.

(2) The Corporate Director shall list such motions or amendments in the order in which they were received and shall circulate them to all Members as soon as practicable.

(3) Where the Mayor considers there are exceptional circumstances he may put to the meeting that this Rule of Procedure be suspended and the matter shall be decided by a simple majority of those Members voting and present in the room at the time the question is put.

40. **In relation to (1) above, Groups should note that the deadline for submissions on the budget is 5pm on Friday 18th February 2022.**
41. Groups are requested, however, to note the statutory obligation of the Chief Executive, as the Council's Chief Financial Officer, to make a statement on the robustness of the Council's budget calculations in support of the proposed budget. In view of this, Groups have been encouraged to discuss, in confidence, their budget proposals with the report author prior to submitting motions and/or amendments referred to above.

Precepts, Printing Council Tax Bills etc.

42. The Major Preceptors will each set their budgets and Council Tax during February. Details of their respective precepts and council tax charges will be reported to the meeting of Council on

24th February 2022 when Council will be asked to approve the budget and council tax for Pendle.

43. The scheduled date for council tax bills and accompanying leaflets to be printed is late February 2021 to enable the bills to be issued by mid-March at the latest. Should it not be possible for the main billing process to start by early March, it would not be possible to issue bills in sufficient time to ensure the first Direct Debit instalments are collected on 1st April. Hence, it is important that Council Tax is set at the meeting of Council on 24th February 2022 as planned.

Summary

44. This report sets out the current budget position for Pendle Borough Council for 2022/23 and highlights the existing gap in funding which will require the use of £0.975m if general fund balances. This is after a proposed increase in 1.99% in Council Tax for 2022/23.
45. The report highlights the proposed saving in the Pendle Leisure Trust Management Fee for 2022/23 and also highlights the proposed transformation programme which, it is hoped, will allow the Council to close this gap over the next three year forecast cycle.
46. The Recommendations are as set out at the beginning of the report.

IMPLICATIONS

Policy: The Council's General Fund Revenue Budget supports the delivery of services in pursuance of the strategic objectives set out in the Strategic Plan. The position reported for 2022/23 and the forward projections in the report continue to pose a significant challenge to sustaining current service delivery over the medium-term. There remains 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 cost base over the medium term planning period. The Council will also need to review policies on the delivery of existing services to determine whether the existing policy direction is affordable within the resources available.

Financial: As set out in the report.

Legal: The Council must calculate and approve its Council Tax Requirement for the forthcoming financial year in accordance with s32 and s43 of the Local Government Finance Act 1992 (LGFA 1992), annually. Section 25 of the Local Government Act 2003 also requires 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 is considered in the report and will be reported to Council on 24th February when the budget is presented for approval.

Risk Management: The development of the Council's budget is a complex task and is based on estimates of future income and expenditure. These estimates are made on the basis of the best information available at the time and can include a range of assumptions on factors like pay inflation, interest rates and demand for services. Whilst efforts are 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 help mitigate this the Council has in place various mechanisms including for example, financial and contract procedure rules, budgetary control and monitoring arrangements to ensure that it can take pro-active action should it be necessary.

The budget for 2022/23 is balanced with use of a Reserves of and the proposed delivery of future savings. Even using reserves to smooth the effect of expected reductions in funding, substantial budget reductions need to be made to maintain a balanced budget. Using reserves in excess of the amounts referred in the budget strategy proposed would, in the absence of any increase in Government funding, present a real risk to maintaining basic levels of service and require significant savings to be identified in later years.

Health and Safety: None arising from the report.

Sustainability: None arising from the report.

Community Safety: None arising from the report.

Equality and Diversity: None arising from the report.

APPENDICES

Appendix A - Financial Strategy 2022/23 to 2024/25

LIST OF BACKGROUND PAPERS

Links

Budget and Spending Review

<https://www.gov.uk/government/publications/autumn-budget-and-spending-review-2021-documents>

Policy & Resources Committee

Thursday 24th June, 2021

https://www.pendle.gov.uk/meetings/meeting/2906/policy_and_resources_committee

Thursday, 16th January 2020

https://www.pendle.gov.uk/meetings/meeting/2732/policy_and_resources_committee

Item 4 Appendix F Pendle Leisure Trust Savings Proposals 2020/21

Item 4 Appendix J Summary of Savings Proposals 2020-23