Appendix E

MEDIUM TERM FINANCIAL STRATEGY 2018 to 2021

1.0 Purpose

Robust medium term financial planning is essential, especially in the current economic environment. Ensuring the ongoing stability of budgets allows managers to plan over the longer term for their services and ensures that resources are deployed in the most effective way to achieve greater efficiency and to align their resources with the priorities of the Council. In this way viable, effective services can continue to be provided.

The purpose of the Medium Term Financial Strategy (MTFS) is to set the financial framework for the Council for the medium term to ensure delivery of strategic objectives and major projects. This requires a review and assessment of revenue budgets, the capital programme, levels of reserves and potential future Council Tax levels, based on funding projections and other financial and economic assumptions.

Although the strategy would normally extend to cover the 3 year period beyond the end of the budget year, i.e. to 2021/22, as for the MTFS presented in 2017, this MTFS has been limited to 2 rather than 3 additional years, i.e. to 2020/21, until more clarity is provided on the changes to the funding framework and mechanisms to be introduced by central government. Announcements and direction on this are anticipated over the next 12 months.

The MTFS forms a pivotal link between financial and business planning, both reflecting and influencing the key plans of the Council and re-aligning diminishing resources on the key priorities.

2.0 Local Context

The MTFS underpins the Council's Corporate Plan, which was updated and agreed by elected Members at Policy Council in December 2017. The Plan sets out for residents, staff and partners, the Council's top priorities for the period through to 2020 and how the Council will continue to improve services and manage the ongoing and difficult financial challenges ahead.

The Council's six priority objectives for residents are:

- Creating more **jobs** and supporting business growth
- Improving **housing** quality and building more houses
- Improving **health and wellbeing**
- Improving outcomes for our **young people**
- Safeguarding the most **vulnerable people**
- **Making your money go further**

To support the delivery of these priority objectives, four long term strategic themes will be distilled into every portfolio to complement the Corporate Priorities;

- Image and Marketing of the borough
- Fairness / Equality / Cohesion
- Partnership working with residents, businesses and other key stakeholders

- A ‘Digital First’ approach to the way we work and in how we communicate with customers and partners

The continuing reductions in government funding will continue to affect the Council and the services that it provides to the public. As a unitary authority there are many competing priorities across the services we provide and the challenge persists to continuously review and realign resources and to deliver efficiencies within the financial constraints imposed by the Government. In doing so the Council is committed to mitigating, wherever possible, the impact on front line services.

3.0 Financial Context

Despite the General Election results of June 2017 the period of public sector austerity is set to continue until at least 2019/20.

In accepting the 4 year settlement effective from 2016/17, the Council has been provided with some stability to assist in financial planning through to 2019/20, however for 2020/21 and beyond, the uncertainty with regards to Government’s plans for;

- the development and implementation of a Business Rates Retention Scheme,
- the development and implementation of a new Fair Funding formula,
- the future of government grant funding including Public Health Grant and Improved Better Care Fund,
- plans for the integration of the NHS and adult social care and
- the impact of Brexit,

make it impossible to model a longer term strategy without any degree of confidence in the underlying assumptions.

The MTFS has therefore been reviewed and updated within this financial context, ensuring that the Council’s strategy remains to help support those in hardship whilst encouraging the growth of jobs and businesses.

4.0 MTFS – Key issues and assumptions

From a base of £183.1 million in 2010/11, the borough has seen a significant reduction in funding to £116.6 million in 2018/19; this reduction of 36% is projected to reach 38% by 2019/20.

The 38% reduction however does not fully reflect the actual level of cuts that the Council has had to make in staff and services; the figure is actually greater as, over the period, the Council has had to absorb the costs of inflation (both pay and non-pay increases) and the costs of increasing demand.

The Council has managed with resilience and strong financial control in balancing the delivery of good quality services to the residents of the borough and meeting its statutory duties, alongside an unprecedented contraction in funding. It has done so through service reorganisation, redesign and successive savings programmes i.e.

- the Transformation Programme during 2010 to 2014
- the 3 year savings programme of £26.0m agreed in September 2014

- a £3.6m in-year savings programme in 2016/17 and
- a £15.0m savings programme developed during 2016/17 for implementation by the end of 2017/18

Further savings plans are being progressed within the individual portfolios to contain their own individual cost pressures and for 2019/20 and beyond, a thematic savings programme is in development covering digital, procurement, alternative service delivery models, Council Tax discounts and income, commercialisation and traded services.

5.0 MTFS key issues and assumptions - Resources and Funding

The key figures and assumptions included within the MTFS in relation to Resources and Funding levels are as follows;

5.1 Local Government Finance Settlement

Whilst the 4 year settlement in the 2016/17 funding announcement has provided more clarity on which to base our MTFS, as we approach the end of this settlement period, budgeting and future service delivery planning is extremely difficult over the medium to longer term and it must be borne in mind that the offer could be subject to change if *'exceptional circumstances prevail'*.

The total Government Resources provided to the Council can be broken down as follows:

Resources	2018/19 £M	2019/20 £M
Revenue Support Grant	17.9	13.3
Top Up	23.5	23.9
New Homes Bonus	1.2	1.3
Council Tax and Housing Benefit Admin Grant	0.7	0.7
Business Rates related grants	3.4	3.3
Better Schools Fund PFI funding	8.5	8.5
Sc 31 Grant for Improved Better Care Fund	3.7	6.3
Additional Improved Better Care Fund (announced Spring 2017)	2.2	1.1
Adult Social Care Grant	0.5	-
Total Government Resources	**61.6**	**58.4**

5.2 Council Tax

As noted in the main report, Blackburn with Darwen has the second lowest Council Tax in Lancashire.

Despite maintaining Council Tax at its 2010/11 level for the previous 5 years, given the withdrawal of Council Tax Freeze Grant, the Council agreed to increase the tax to assist in closing the budget gap by 1.99% in both 2016/17 and 2017/18.

Within the Financial Settlement for 2018/19, the Government announced an increase in the referendum cap from 2.0% to 3.0% in both 2018/19 and 2019/20 (i.e. the maximum amount that Council Tax can increase without the need for a referendum). They then proceeded to assume within their calculation of Blackburn with Darwen's Settlement Funding Assessment (SFA), that we would increase Council Tax by 2.99% in each year and as such, included this as part of our baseline funding.

The Financial Settlement for 2016/17 introduced an option for all authorities with responsibility for Adult Social Care to increase Council Tax by an additional 2% in that year, without the need to hold a referendum; this was called the Adult Social Care Precept. This was on the proviso that all of the increase would be used to assist in meeting expenditure on Adult Social Care functions. In 2017/18, the Government announced that Councils could continue to apply the precept subject to a maximum increase of 3% in any one year but with a cap of 6% over the 3 year period 2017/18 to 2019/20.

Given the scale of the mounting financial and demand pressures on our Adult Social Care services, the Council proceeded with the increases and assumed these within the MTFS at 3.0% in 2017/18, 1.5% in 2018/19 and 1.5% again in 2019/20. However, given that the continued escalation of costs has exceeded the assumptions made in the MTFS last year, the increase has now been re-phased over 2018/19 and 2019/20, to apply the balance of the 6% precept in 2018/19; i.e. a 3% increase.

Within the MTFS the total 6% recommended increase remains the same over the 3 year period, it is just the phasing of the implementation that has been adjusted.

5.3 Growth Agenda

As detailed in the main report, the Council remains committed to contributing to the delivery of its growth strategy. This will generate additional revenue for the Council in terms of additional Council Tax and additional Business Rates income.

Within the budget for 2018/19 and in the MTFS through to 2020/21, additional Council Tax and Business Rates income, based on growth, has been assumed as follows;

	2018/19 £'000s	2019/20 £'000s	2020/21 £'000s
Council Tax and Business Rates Growth	596	1,070	1,595

£0.60m has been built into the tax base for 2018/19. In future years the growth is held within a contingency reserve and will be fed through to the tax base at the start of each year.

A more conservative view has been taken in building in additional income for Business Rates given the uncertainty regarding the level of appeals that may be submitted to the Valuation Office Agency (VOA) following the revaluation exercise and the potential rateable value and Business Rate charge adjustments in the borough.

5.4 Business Rates

5.4.1 Revaluation

2017/18 saw the implementation of the updated rateable values following the Business Rates Revaluation exercise, to reflect the market as at 1st April 2015. Revaluation is a revenue neutral exercise i.e. the total rates bill across England will remain the same in real terms, after allowing for appeals. At the local authority level however business rates will increase or decrease depending upon whether rateable values in the area have performed above or below the average for England, again after allowing for appeals.

For Blackburn with Darwen, the impact of the revaluation was a reduction in the total Rateable value of properties in the borough on 1st April 2017 by £10.435m (from £128.695m to £118.260m). This change, as for other local authorities, was outside of our control although to ensure no one is advantaged/disadvantaged by the reset, the Government has adjusted each authority's 'tariff' or 'top-up' payment so that as far as is practicable, the retained income for each Council is the same after revaluation as it was immediately before.

5.4.2 Business Rates Retention

As noted in **Sections 5.3.2** and **5.13** of the main report, the Government has now stated that it will seek to increase the local share of Business Rate Retention by up to 75% in 2020/21. This will be through the incorporation of existing grants into the scheme, including the Revenue Support Grant and the Public Health Grant. The remaining 25% central share will be returned to HM Treasury.

Although the Government will undertake a review of the distribution or 'needs' formula in the lead up to the proposed introduction of Business Rates Retention (as outlined in **Section 5.7** below), the MTFS has assumed that apart from the impact of growth, the current arrangements will remain in place over the period of the MTFS, including 2020/21.

5.4.3 Business Rate Top-up and Tariffs

At the commencement of the BRR scheme, calculations were undertaken for all Councils taking into consideration the Relative Needs Assessment previously used to determine the 2012/13 grant allocations; this resulted in a Business Rates baseline for each authority. Those whose funding levels reduced following the introduction of the BRR scheme have received a 'top-up' payment from central Government to ensure that their share of Business Rates, plus the top-up, has kept their funding at the base-line level, albeit that this has been adjusted over time for growth and inflationary uplift.

Again, given the uncertainty as to how the outcome of the Fair Funding review will be implemented, it is assumed within the MTFS that the current mechanism for tariff and top-up will remain and that the Council will continue to receive a top-up in 2020/21 to maintain total Business Rates on the same basis as in previous years.

5.5 Education Services Grant Funding (ESG), Dedicated Schools Grant (DSG) and Pupil Premium

The funding arrangements for Dedicated Schools Grant in 2018/19 are broadly the same as last year however there have been some changes between the DSG blocks of funding i.e. Schools, High Needs, Early Years and Central Services; the Council has seen a significant reduction in funding of the High Needs Block.

As part of the implementation and phasing in of the National Funding Formula, now expected to be fully implemented by 2020/21, there have been some key changes to the funding of education services previously funded by Education Services Grant (ESG). During 2017/18 ESG has been phased out and education services are now included within the Schools Block and Central Services Block of DSG with agreement from the Schools Forum.

5.6 Adult Social Care Funding

In presenting the final settlement to Parliament on 7th February 2018, the Secretary of State recognised that the issue of funding for social care is a long-term challenge that requires a sustainable settlement for the future. He stated that the publication of the Green Paper in summer will set out proposals for reform intended to address this.

As outlined in **Section 5.2** above, as per the flexibilities introduced in the 2017/18 Local Government Finance Settlement, social care authorities are able to increase their Council Tax by up to 3% in 2018/19 (above the existing basic referendum threshold of 3%) as long as the precept increases do not exceed 6% over the 3 year period between 2017/18 and 2019/20.

The MTFS assumes an increase of 3% in 2018/19, reaching the maximum permissible within the 6% cap.

5.6.1 Improved Better Care Fund

The introduction of the Improved Better Care Fund in 2017/18 provided extra funding for the borough, to be utilised in consultation with the NHS, in addressing the funding pressures in Adult Social Care and specifically in reducing the delayed transfers of care of patients out of hospital and into their home or a community setting. The distribution of the funding is said to take in to consideration the fact that authorities have varying capacity to raise Council Tax (including the additional Council Tax raised through the Adult Social Care Precept), dependant on the total number of properties within their area and the distribution of these properties within each of the Council Tax bands, Band A to Band H.

The funding is allocated directly to local authorities through a separate Section 31 grant with the NHS and it is a requirement of the funding that iBCF is pooled and monitored together with the existing Better Care Fund.

In response to the outcry and protests from councils, politicians and the NHS at the lack of funding for adult social care, in March 2017 (after the 2017/18 Budget and MTFS were approved by Finance Council) additional iBCF funding was announced to provide assistance in alleviating some of the more immediate financial pressures on this service;.

	2018/19 £m	2019/20 £m	2020/21 £m
Improved Better Care Fund	3.71	6.26	6.26
Additional Improved Better Care Fund	2.19	1.08	0.00
TOTAL iBCF	**5.90**	**7.34**	**6.26**

Beyond 2019/20 there is no certainty for the future of either the iBCF funding or the additional iBCF funding and so for the purposes of this MTFS, it has been assumed that the original iBCF will continue in 2020/21 at its 2019/20 level, but the additional iBCF will reduce to zero in that year in line with the gradual withdrawal that is scheduled over the period.

5.6.2 Adult Social Care Grant

As noted in the main report, following representations made following the issue of the provisional Local Government Settlement in December 2017, the final settlement of 7th February 2018 included a non-recurring Adult Social Care Support Grant for 2018/19, allocated according to relative needs for councils to use to support sustainable local care markets; Blackburn with Darwen has received £0.48m.

The publication of the Green Paper in summer may provide further information on this funding however until further notification is received, the MTFS assumes that the grant will not continue beyond 2018/19.

5.7 Fair Funding Review

Alongside the Local Government Finance Settlement the Government confirmed that it is looking to implement the Fair Funding Review in April 2020 and published the consultation: Fair Funding Review: a review of relative needs and resources.

This consultation will focus specifically on potential approaches that have been identified to measure the relative needs of local authorities. In particular it;

- presents the idea of using a simple base formula to measure the relative needs of local authorities, based on a small number of common cost drivers
- considers a number of service areas where an additional, a more sophisticated approach to measuring relative needs may potentially be required and
- also outlines the statistical techniques that could be used to construct relative needs.

The consultation does not cover the relative resources adjustment, transition or other technical matters but these will be the subject of a later series of discussion papers.

6.0 MTFS key issues and assumptions - Expenditure

6.1 Pensions

The results of the 2016 triennial actuarial valuation of the Local Government Pension Scheme identified that our overall scheme deficit had reduced from £110.2m to £81.8m and that the funding level had increased from 77% to 85%.

Following discussions with the Scheme Actuary and the Head of Lancashire County Pension Fund, with the approval of the Lancashire Local Pension Board, it was agreed that the Council could continue to repay the scheme deficit over a period of 19 years from 1st April 2017 (rather than the original proposal of 16 years) provided contributions were maintained at no less than their 2016/17 levels, i.e. at £4.8m per year.

In respect of future service contributions, the triennial valuation identified that an increase from 12.4% to 14.8% in Employer Pension contributions was required to meet the projected increase in future liabilities. Again, after discussions with the Scheme Actuary and the Head of Lancashire County Pension Fund, it was agreed that the Council could take a stepped approach to implement these increases, maintaining contributions at 12.4% in 2017/18 but then increasing as follows;

2018/19	increase contributions to 13.4%
2019/20	increase contributions to 14.8%

In order to reduce costs further, the Council took advantage of the discount offered for early payment of the pension deficit reduction payments due for the 3 years 2017/18 to 2019/20; i.e. instead of making monthly deficit payments into the scheme, the Council made an up-front payment of £13.5m for the full 3 years at the beginning of the 2017/18 financial year. This will result in a net saving, after accounting for interest on borrowing, of approximately £0.75m over the 3 year period.

The 2016/17 Annual Report to the Lancashire Local Pension Board stated that the Lancashire County Pension Fund had continued to perform well and that the scheme was 90% funded thereby allowing some stability over employer contribution rates and giving increased assurance to members. On this basis, the MTFS assumes that pension contributions in 2020/21 will be maintained at their 2019/20 levels.

6.2 Demand Pressures and Thematic Saving Reviews

The demand pressures impacting on the Council throughout the period of the MTFS are referred to in the main body of the report; the MTFS assumes that any increase in demand and/or cost pressures arising over and above the specific provisions made and referred to below, will be contained within the available budget.

Whilst presenting a balanced budget for 2018/19, the report forecasts a budget gap in 2019/20 of £4.9m, and of £13.3m in 2020/21. It is important to stress however, that reliance cannot be placed on the figures in the final year of the MTFS given the risks around the assumptions made, particularly given the lack of information provided by central Government at this time.

We do however have a clear strategy to address the cost pressures faced in 2019/20 and beyond, through a programme of thematic reviews which will cover;

- Digital change
- Procurement
- Alternative service delivery models
- Income, commercialisation and traded services
- Council Tax – review of single person discount and a focus on empty homes

This will encompass reviews, as applicable, of potential efficiency savings, of potential for growth and income generation, invest to save options and of prevention measures to curtail or defer demand. Whilst the areas for review have been identified and agreed, the business cases and programmes to underpin each of them are currently in development and so savings attributable to each have yet to be quantified in detail.

These reviews will commence in the next couple of months and will start to deliver part-year savings in 2018/19 to offset any other pressures and/or replenish reserves ahead of more significant savings to be made in future years.

6.3 Pay Awards

As noted in **Section 6.2.1** of the main report, we still await the outcome of the Trade Union ballots in March on the two year pay award offer made by the Employers for 2018/19 and 2019/20 which is based on a flat rate increase of 2% each year, with higher increases for the lower pay points.

In the absence of further information, the MTFS assumes pay inflation of 2% for each of the next 3 years and assumes that the costs of incremental progression will be met from efficiencies and savings made within the individual portfolios.

6.4 National Living Wage and Local Living Wage

Following the Policy Council in 2013 a `Local Living Wage` was introduced which was generally in line with the previous years `Living Wage Foundations` outside London rate. Since this date, Policy Council has continued with the practice of uplifting the lowest council pay rates to this `Local Living Wage` rate, acknowledging that annual pay awards may impact on the numbers of staff in receipt of the pay supplement.

Currently the minimum rate paid to Council employees is a Local Living Wage rate of £7.85 per hour. This compares to the Government's National Living Wage (NLW) of £7.50 per hour which is set to rise to £7.83 in April 2018.

The current national pay negotiations (referred to in **Section 6.3** above) have also taken into account the rise in the National Living Wage with effect from 1st April 2018.

The Policy Council in December 2017 approved an increase in the Council's Local Living Wage to £8.45 per hour from April 2018, however the current proposals from the National Employers now set a minimum pay rate of £8.50 per hour. For this reason the Pay Policy has been revised to propose, pending the conclusion of National Pay Negotiations, a Local Living Wage rate of £8.50 per hour with effect from 1st April 2018. This has been reflected within the Budget for 2018/19 and the MTFS.

6.5 Price inflation

Specific price inflation has been included each year within the MTFS for items such as utilities, waste and for agreed contract price inflation however for 'general consumables', it has been assumed that this will be contained within existing budgets and cash limits.

As noted within the main report, the commissioning budgets for adult social care within the 2018/19 Budget, and in the MTFS through to 2020/21, include some provision for increases in provider hourly rates and contract changes arising from the increase in the National Living Wage, however until discussions to determine the impact of this with providers are held and fully understood, and the contract negotiations are completed, it is not possible to precisely quantify them at this stage.

6.6 Interest rates and borrowing

The MTFS reflects forecast interest rates (both on borrowing and investment) outlined in the report on Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision Policy 2018/19 and commitments within the Capital Programme in terms of both forecast expenditure and forecast capital receipts.

7.0 Three Year Financial Forecast - Summary

Faced back in 2016 with a forecast deficit of almost £48 million by 2019/20, the Council has worked hard through implementation of a range of measures to close the budget gap. Significant progress has been made to date through delivery of the agreed savings programme and through increases in income.

From an income perspective, the 4 year settlement has provided some stability for financial planning through to 2019/20 but as outlined above, 2020/21 is an unknown given the uncertainties around the future mechanisms for Business Rates Retention, tariff and top-ups, the implementation of the Fair Funding Review, the future funding issues of adult social care and the potential integration of social care with health and also the future changes in the schools funding formula.

From an expenditure perspective the situation is equally uncertain; inflation and interest rates are forecast to rise, which in turn will create demand for increases in pay. The uncertainty around the impact of Brexit looms large and the demand for services, specifically adult social care and children's services persist.

The MTFS presented reflects the best estimate of future income and expenditure streams that we have at present. It is based on an array of current information and data sources and on a series of assumptions which are all referred to above and in the main body of the report.

The MTFS for the period 2018/19 to 2020/21 is therefore as follows;

MEDIUM TERM FINANCIAL FORECAST 2018/19 TO 2020/21

Summary

	2018/19	2019/20	2020/21
	£ 000's	£ 000's	£ 000's
Resources			
Government grants	61,589	58,234	53,866
Business rates retained locally	19,679	19,958	21,138
Council tax	50,501	51,503	52,525
Less: forecast Collection Fund balance at 31st March 2018	(291)	0	0
Total resources	**131,478**	**129,695**	**127,529**

Net Expenditure			
Portfolio controllable budgets	112,916	115,240	117,407
Net income from support service recharges	(641)	(641)	(641)
Cost of capital investment	17,734	18,278	19,279
Central contingencies	1,286	1,564	4,562
Parish Precepts	183	183	183
Net expenditure	**131,478**	**134,624**	**140,790**

BUDGET SHORTFALL / (SURPLUS)	**0**	***4,929**	****13,261**

* the budget gap of £4.9m in 2019/20 does not reflect the savings to be realised through our programme of thematic reviews across digital change, procurement, alternative service delivery models, income, commercialisation and traded services and in respect of Council Tax, from a review of single person discount and a focus on empty homes. Whilst the areas for review have been identified and agreed, the business cases and programmes to underpin each are currently in development and the savings attributable have yet to be quantified in detail; until such time that this is possible, it is assumed that the budget gap will be addressed through the application of both ear-marked reserves and the unallocated, general reserve.

** The budget gap of £13.3m in 2020/21 again does not reflect the savings to be delivered from the thematic reviews noted above; in addition, as reflected throughout the report, it is important to stress that reliance cannot be placed on the figures for 2020/21 given the significant risks around the assumptions made, particularly given the lack of information provided by central Government in relation to future funding, and the mechanisms for its distribution, at this time.