



REPORT OF: Executive Member for Resources

LEAD OFFICERS: Director of Finance and IT

DATE: 6th October 2016

SUBJECT: ACCEPTANCE OF THE GOVERNMENT'S 4 YEAR GRANT SETTLEMENT OFFER

1. EXECUTIVE SUMMARY

As part of the December 2015 Spending Review, the Secretary of State for Communities and Local Government (DCLG) made an offer to councils to take up a 4 year funding settlement for the period 2016/17 to 2019/20.

To accept this offer an email confirmation must be sent to DCLG by 14th October including a link to an Efficiency Plan; the Secretary of State has not issued any guidance on what an efficiency plan should contain but has stated that it must cover the full 4 year period.

The Government does not expect the production of the plan to be a significant burden on councils and has said that it should be simple and straightforward, drawing together existing corporate plans and strategies. The plan can be linked to the Council's Medium Term Financial Strategy (MTFS) provided it can articulate how provision of a greater clarity around funding can deliver further savings to produce a balanced budget.

2. RECOMMENDATIONS

Council is recommended;

1. To accept the Government's 4 year funding offer as it will create certainty over a significant part of the Council's future resources and will allow the Council to develop and deliver against the MTFS
2. To submit the MTFS, approved by Finance Council on 29th February 2016, as its Efficiency Plan in order to satisfy the conditions of acceptance of the 4 year funding settlement for the period 2016/17 to 2019/20.

3. BACKGROUND

As part of the 2016/17 Spending Review and Local Government Settlement, an offer was made to all Councils of a 4 year funding settlement up to 2019/20.

The purpose of this offer is to help local authorities to achieve a greater certainty in their funding over the period, to strengthen financial management and to provide stability to enable more proactive planning of their service delivery.

The offer made by the Government is as follows:

"On 9 February we provided summaries and breakdown figures for each year to your s151 Officer. From those figures the relevant lines that are included in the multi-year settlement offer, where appropriate, are:

- Revenue Support Grant;
- Transitional Grant; and
- Rural Services Delivery Grant allocations.

In addition, tariffs and top-ups in 2017-18, 2018-19 and 2019-20 will not be altered for reasons related to the relative needs of local authorities, and in the final year may be subject to the implementation of 100% business rates retention.

The Government is committed to local government retaining 100% of its business rate revenues by the end of this Parliament. This will give them control over an additional £13 billion of tax that they collect.

To ensure that the reforms are fiscally neutral local government will need to take on extra responsibilities and functions. DCLG and the Local Government Association will soon be publishing a series of discussion papers which will inform this and other areas of the reform debate.

The new burdens doctrine operates outside the settlement, so accepting this offer will not impact on any new burden payments agreed over the course of the four years.

The Government will also need to take account of future events such as the transfer of functions to local government, transfers of responsibility for functions between local authorities, mergers between authorities and any other unforeseen events. However, barring exceptional circumstances and subject to the normal statutory consultation process for the local government finance settlement, the Government expects these to be the amounts presented to Parliament each year”.

No guidance has been issued from Government on the format or content of these Efficiency Plans but it must cover the full 4 year period. The Government does not expect this to be a significant burden on Councils and intends it to be simple and straightforward, drawing together existing corporate plans and strategies. The plan can be linked to the Council’s Medium Term Financial Strategy but must demonstrate how this greater certainty of funding will deliver opportunities for further savings.

4. KEY ISSUES & RISKS

4.1 Financial Implications of Accepting the 4 year settlement

Over the past few years the Grant Settlement figure has been volatile and difficult to predict given the continuation in the government’s austerity programme; this has made budgeting and future service delivery planning difficult, especially over the medium to longer term.

The provision of indicative 4 year settlement figures in the 2016/17 funding announcement provided more clarity on which to base our MTFS and as such these were the figures that were incorporated into the MTFS presented to Finance Council in February 2016 for the period 2016/17 to 2019/20.

The following table sets out the details of the settlement for Blackburn with Darwen of which the Revenue Support Grant, which is set to reduce from £28.85 million in 2016/17 to £13.31 million by 2019/20, is included in the multi-year offer;

	2016/17 £'mill	2017/18 £'mill	2018/19 £'mill	2019/20 £'mill
Revenue Support Grant	28.85	22.30	17.84	13.31
Baseline Funding Level	40.79	41.59	42.82	44.18
Settlement Funding Allocation	69.64	63.89	60.66	57.49
Top-up funding	17.98	18.33	18.87	19.48
TOTAL	87.62	82.22	79.53	76.97

4.2 Efficiency Plan

The impact of the above settlement is detailed in the MTFS; i.e. the reduction in resources, together with the

other financial pressures facing the council has resulted in a forecast funding gap of £48 million by 2019/20.

The MTFS outlines how the Council intends to close this gap through a combination of measures including;

- growth in the number of houses and businesses in the borough,
- through increases in income, Council Tax and the Adult Social Care precept,
- through the short term use of reserves to address specific funding 'pinch points' and, most significantly,
- through a programme of savings plans which include the Workforce Review.

As such the MTFS forms the Efficiency Plan that would be submitted to DCLG if Council agrees that the offer should be accepted. (The MTFS paper is attached at Appendix A for reference.)

4.3 Risks

In deciding whether to accept the 4 year offer or not, there are both advantages and disadvantages to consider;

Advantages

- The offer provides greater financial certainty as the funding received will not be less than that outlined in the final settlement (unless exceptional circumstances prevail) and it will not be subject to the usual yearly process of determining the local government finance settlement.
- As such this would provide greater financial stability and the ability to plan now for future years
- The Government has 'suggested' that if additional savings are required over the 4 year period, those Councils who have not signed up to the offer would be the first port of call for any grant reductions
- Further reductions are limited to those caused by 'exceptional' circumstances

Disadvantages

- Future grant allocations (i.e. beyond 2019/20) could be based upon the 'accepted' base grant level
- Despite accepting the 4 year settlement, further reductions could still be made due to the 'exceptional' circumstances caveat in the offer

The allocations stated in the 4 year offer are subject to the normal statutory consultation process for the local government finance settlement; however the Government expects these to be the amounts presented to Parliament each year.

5. POLICY IMPLICATIONS

Accepting the 4 year settlement offer will provide key funding level information which will be incorporated into the budget setting process for 2017/18 and in an updated MTFS. The budget process is the mechanism by which the Council allocates resources so that it can achieve its policy objectives agreed at Policy Council.

6. FINANCIAL IMPLICATIONS

The financial implications of the decision are outlined in the report above i.e. a reduction in RSG of £15.54 million (from £28.85 million in 2016/17 to £13.31 million in 2019/20). This reduction has already been factored into the Council's MTFS for 2016/17 to 2019/20 and is reflected in the budget gap of £48 million detailed therein.

7. LEGAL IMPLICATIONS

The Council has not previously been invited to decide whether or not to accept a particular payment arrangement for the Revenue Support Grant as such matters are normally determined by Central Government; nor has any guidance been provided as to how that decision should be reached.

The Local Government Finance Act 1992 and the Council's Constitution set out the parameters of the decision making process in respect of the Council's budget. It is considered that this decision falls within the Council's

budget and policy framework, in that it affects future years finance and forms part of the Medium Term Budget Strategy; as such it is considered a matter to be decided by Full Council.

8. RESOURCE IMPLICATIONS

The Council will continue to work closely with its staff and with Trades Unions to ensure that all savings proposals that impact on staff numbers, will be managed in accordance with both statutory requirements and the Council's change management and redundancy policies and associated guidance.

9. EQUALITY IMPLICATIONS

All proposals where appropriate are subject to an Equality Impact Assessment before implementation.

10. CONSULTATIONS

The Council is committed to consultation with residents, businesses and partners and stakeholders.

11. STATEMENT OF COMPLIANCE

The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

12. DECLARATION OF INTEREST

All Declarations of Interest of any Executive Member consulted and note of any dispensation granted by the Chief Executive will be recorded and published if applicable.

VERSION:	0.01
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CONTACT OFFICER:	Louise Mattinson
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DATE:	12 th September 2016
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BACKGROUND PAPER:	Medium Term Financial Strategy (Report to Finance Council February 2016)
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MEDIUM TERM FINANCIAL STRATEGY 2016 to 2020

1.0 Purpose

1. Robust medium term financial planning is essential 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 to local people.
2. The purpose of the Medium Term Financial Strategy (MTFS) is to set the financial framework for the Council for the medium term (over the next 4 years), to ensure delivery of the Council's strategic objectives and major projects. This requires review and assessment of their impact on revenue budgets, the capital programme, levels of reserves and potential future council tax levels, based on funding projections and other financial and economic assumptions.
3. The MTFS forms a key link between financial and business planning, both reflecting and influencing the key plans of the Council, including:
 - Corporate Plan,
 - Asset Management Plan,
 - ICT Strategy,
 - Treasury Management Strategy,
 - Carbon Management Plan and
 - People Strategy
 - Growth Strategy
4. This MTFS aims to re-align scarce resources on key priorities which have been developed following public consultation as the Council remains committed to consulting with its residents, businesses, stakeholders and partners.

2.0 Local Context

1. The MTFS underpins the Council's Corporate Plan, which was agreed by elected members at Policy Council in December 2015, and sets out for residents, staff and partners, the Council's top priorities for the next four years and how the Council will continue to improve services and prepare for the ongoing and difficult financial challenges ahead.
2. 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** – education and skills
 - Safeguarding the most **vulnerable people**
 - **Making your money go further** – supporting households in difficult financial times through efficient and effective use of council tax

To support the delivery of these priority objectives the Council will be:

- **Working together** with residents, businesses and partners - developing local solutions via local problem solving
- Managing the **impact** of national reforms on residents and the Council –particularly around the welfare system, health services and educational provision
- Delivering **high quality services** by being a well-managed authority which is fit for the future, efficient and effective and continuing to use the best possible business models to deliver excellent services

The continuing reductions in government funding will affect the Council and the services that it provides to the public. The Council is however, committed to mitigating wherever possible the impact on front line services.

As a unitary authority there are many competing priority areas across the service portfolios. The challenge in this financial climate to deliver the strategy over the medium term will largely depend on the continued success of reprioritisation of services and realignment of resources (both between and within portfolios), to meet key priorities and to deliver efficiencies within the financial restraints imposed by central government. This may mean further re-engineering of the way in which services are provided or indeed, who provides them.

3.0 Financial Context

1. Through successive Autumn Statements and Spending Reviews the Chancellor has indicated that there will be spending cuts across public services until the public finances are in surplus. Local government in England is now five and a half years into a period of public sector austerity, which will continue until at least 2019/20 as outlined in the Chancellor's Autumn Comprehensive Spending Review in 2015 and confirmed in the Local Government Finance Settlement of 9th February 2016.
2. This MTFS therefore has been prepared against the backdrop of a difficult economic climate which continues to impact upon businesses and citizens of the Borough, and which places pressure on Council services to respond. The Council's strategy, underpinned by the MTFS, is to help to support those in hardship whilst encouraging the growth of jobs and businesses.

4.0 MTFS – Key issues and assumptions

An updated, summary MTFS was presented to Council Forum on 3rd December 2015, based on assumptions and information available at that time but most significantly, prior to the receipt of the provisional Local Government Finance Settlement which was announced later on 17th December 2015. The Budget gap reported on 3rd December, and the resulting impact of the settlement, is as follows;

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
MTFS Budget Deficit reported to Council Forum 3rd December 2015	24,800	29,900	35,300	38,800
Increase in deficit due to decrease in Government Funding available following notification of settlement (i.e. further decrease over and above that already factored into MTFS assumptions at 3 rd Dec 2015)	1,800	5,000	6,300	9,000
Projected MTFS Budget Deficit	26,600	34,900	41,600	47,800

Faced with a forecast deficit rising to almost £48 million by 2019/20, options have been developed to close the budget gap and are recommended for approval in Section 2 of the main report.

Whilst some actions have already been agreed, such as the Year 2 and Year 3 savings within the 3 Year Savings Programme agreed by Council in September 2014, others to deliver a balanced budget in 2016/17 are detailed earlier in the report.

In preparing the MTFS for the financial years beyond 2016/17 through to 2019/20 however, various assumptions have been made, including the options proposed, and these are outlined below;

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

Within the Local Government Finance Settlement issued on 9th February 2016, the government has provided an estimate of the settlement for the following 3 years – 2017/18, 2018/19 and 2019/20. Should a Council wish to accept and sign-up to the 4 year settlement, they have until 14th October 2016 to do so, by which time the monitoring arrangements for such an agreement will have been developed and be understood.

The indicative funding levels have been incorporated into the MTFS to produce a Summary of Resources for the 4 financial years 2016/17, 2017/18, 2018/19 and 2019/20 as follows;

Resources	2016/17 £M	2017/18 £M	2018/19 £M	2019/20 £M
Revenue Support Grant	28.9	22.3	17.8	13.3
Top Up	18.0	18.3	18.9	19.5
New Homes Bonus	1.8	1.8	1.1	1.1
Council Tax and Housing Benefit Admin Grant	0.9	0.9	0.9	0.9
Business Rates related grants	1.8	1.7	1.7	1.7
Education Services Grant (ESG)	1.7	1.7	1.7	1.7
Better Schools Fund PFI funding	8.5	8.5	8.5	8.5
Total Government Resources	61.6	55.2	50.6	46.7

5.2 Council Tax

Despite maintaining Council Tax at its 2010/11 level for the past 5 years, given the withdrawal of Council Tax Freeze Grant, the Council is proposing to increase Council Tax in 2016/17 to assist in closing the budget gap. The proposed increases are;

- 1.99% in relation to general increases in the cost of Council services and
- 2.00% to meet the costs of Adult Social Care

The MTFS assumes that the same level of increases will be applied in each of the following 3 years.

5.3 Growth Agenda

As detailed in the main report, the Council is committed to contributing to the delivery of the Local Strategic Partnership's 'Plan for Prosperity 2014 - 2020' for the Borough which will deliver 3,250 additional homes over the period and an extra 100,000sqm of new commercial floor space. This will in turn generate additional revenue for the Council in terms of additional Council Tax and additional Business Rates income.

Within the budget for 2016/17 and the MTFS through to 2019/20, additional Council Tax and Business Rates income has been assumed as follows;

Additional Revenue;	2016/17 £'000s	2017/18 £'000s	2018/19 £'000s	2019/20 £'000s
Council Tax and New Homes Bonus	-	720	1,905	2,711
Business Rates	-	115	160	300
TOTAL Growth Income	-	835	2,065	3,011

5.4 Business Rates

In respect of Business Rates, although the government will undertake a review of the distribution or 'needs' formula in the lead up to the proposed introduction of 100% Business Rates Retention, the MTFS has assumed that apart from the impact of growth as noted above, the current arrangements will remain in place over the period of the MTFS.

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

In announcing the provisional settlement back in December, the Chancellor referred to the government's intention that all schools should attain academy status by the end of the current parliament. However, given that there is little information on this or on the timescale or phasing for schools within the Borough, this has not been reflected in the MTFS; it has been assumed that this funding will remain at the levels for 2016/17 for the remainder of the period.

5.6 Public Health

The MTFS assumes that any reduction in funding following the introduction of a new formula to redistribute funding across local authorities (currently out to consultation), will be offset by a corresponding decrease in expenditure. Therefore funding has been included in the MTFS for 2018/19 and 2019/20 at the rate confirmed for 2017/18.

6.0 MTFS key issues and assumptions - Expenditure

6.1 Pensions

The triennial actuarial valuation of the Local Government Pension Scheme is due in 2016 and any adjustments to pension rates will be applied with effect from 1st April 2017. However, in the absence of any information on indicative rates, it has been assumed within the MTFS that pension contributions will remain at the current levels.

6.2 Demand Pressures and Savings Options

Demand pressures which will impact on the Council throughout the period of the MTFS are referred to in the main body of the report, together with savings plans and options which are also detailed in Appendix C. The MTFS assumes delivery of the third year of the 3 Year Savings Programme in 2017/18.

It is also assumed that apart from delivery of the proposed savings options, any increase in demand and other cost pressures arising will be contained within the available budget.

6.3 Pay Awards

Future pay awards are not certain; as such a 1% pay award has been built into the MTFS for each of the next 4 years.

The MTFS also reflects the introduction of the new Apprenticeship Levy to be introduced from April 2017.

6.4 Price inflation

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

6.5 Interest rates and borrowing

The MTFS reflects both the forecast interest rates (both on borrowing and investment) as outlined in the report on Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision Policy 2016/17, and the extent and phasing of the Capital Programme in terms of both forecast expenditure and forecast capital receipts.

7.0 Four Year Financial Forecast - Summary

In light of the financial challenges faced by the Council, this has been a very difficult budget setting exercise to complete as the government's austerity measures have been extended beyond the initial period indicated and will now continue through to 2019/20.

Faced with a forecast deficit rising to almost £48 million by 2019/20, proposals and measures have been developed to address the budget gap over the period of the MTFS and can be summarised as follows;

	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000
Total projected deficit following receipt of Local Government Finance Settlement (Feb 2016)	26,600	34,900	41,600	47,800
Updated projections to close the gap				
MRP (capital repayment) Policy change approved at Council Forum 3 rd Dec 2015	(1,600)	(1,500)	(1,500)	(1,500)
Revised assumptions and updated cost/income information including pay and price inflation, interest rates, council tax and business rates in respect of growth agenda etc.	(6,300)	(5,700)	(7,500)	(9,800)
Year 2 and 3 of Advanced Savings Programme agreed in September 2014	(6,700)	(10,200)	(10,200)	(10,200)
Commercial Strategy Savings (Increased fees & charges)	(500)	(1,000)	(1,500)	(2,000)
Workforce Review Savings	(3,000)	(9,000)	(13,000)	(13,000)
Revised MTFS Budget Deficit subtotal	8,500	7,500	7,900	11,300

Options recommended to Finance Council to close the gap				
Proposed Council Tax increase - assumed general increase of 1.99%	(800)	(1,700)	(2,600)	(3,500)
Proposed Council Tax increase re Adult Social Care functions - assumed 2% increase	(900)	(1,700)	(2,600)	(3,600)
2016/17 Additional Savings Programme	(3,600)	(3,600)	(3,600)	(3,600)
Use of Reserves – general and earmarked	(3,200)	(200)	-	-
Proposed MTFS Budget Deficit Position	-	300	(900)	600

Taking into consideration the assumptions and figures referred to above and in the main body of the report, together with the savings options both agreed and proposed, the MTFS for the period 2016/17 to 2019/20 is as follows;

MEDIUM TERM FINANCIAL FORECAST 2016/17 TO 2019/20

Summary

	2016/17	2017/18	2018/19	2019/20
	£ 000's	£ 000's	£ 000's	£ 000's
Resources				
Government (non-ringfenced) grants	61,638	55,183	50,605	46,623
Business rates retained locally	22,928	23,387	23,972	24,571
Council tax	44,080	45,833	47,656	49,551
Add collection fund surplus from 2015/16	359	0	0	0
Contribution from reserves	3,217	250	0	0
Total resources	132,222	124,653	122,233	120,745

Net Expenditure				
Portfolio cash limited budgets net of savings targets (3 year Savings Programme and those proposed in 2016/17 Budget paper)	106,774	96,374	91,934	91,434
Net income from support service recharges	(2,653)	(1,291)	(1,291)	(1,291)
Cost of capital investment	22,993	23,980	23,929	23,976
Central contingencies	4,631	5,729	6,556	7,049

Parish Precepts	182	182	182	182
Contribution to reserves	0	0	0	0
Net expenditure	132,222	124,974	121,310	121,350

BUDGET SHORTFALL / (SURPLUS)	0	321	(923)	605
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