BLACKBURN with DARWEN BOROUGH COUNCIL

REPORT OF:	**EXECUTIVE MEMBER RESOURCES, ON BEHALF OF THE LABOUR GROUP**
TO:	**COUNCIL**
DATE:	**29th February 2016**

PORTFOLIOS AFFECTED: ALL

WARDS AFFECTED: ALL

SUBJECT: Revenue Budget 2016/17, Medium Term Financial Strategy and Capital Programme 2016-20

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1. PURPOSE

To recommend to Finance Council the Budget Strategy and the proposals for the Revenue Budget 2016/17 and the Medium Term Financial Strategy (MTFS) and Capital Programme for 2016-2020.

2. RECOMMENDATIONS

2.1 To approve the proposals for the Revenue Budget for the financial year 2016/17 outlined in this report and specifically;

2.1.1 To approve an increase in Council Tax rates of 1.99%

2.1.2 To approve an additional increase in Council Tax rates of 2.0% to meet the costs of Adult Social Care

2.1.3 To approve the proposals for budget savings for 2016/17 to 2019/20, as set out in Appendix C, and to note that as a consequence of these proposals, in consultation with the relevant Trade Unions, staff will be put at risk of redundancy in a number of service areas

2.1.4 To approve the utilisation of the Part-Year Slippage reserve, as required, to support those savings that cannot be implemented with effect from 1st April 2016

2.1.5 To approve the transfer of £3.217M from Reserves (i.e. £0.571M from Unallocated Reserves and £2.646M from Earmarked Reserves) to facilitate delivery of the Budget Strategy as per Appendices A and B of the report

2.2 To approve the proposals for the Capital Programme for the period 2016/17 to 2019/20 as outlined in Appendix D and Section 8 of this report

2.3 To approve the draft Medium Term Financial Strategy 2016/20, as per Appendix E of this report, and to approve the subsequent publishing of the final version incorporating the approved budget proposals.

2.4 To approve, subject to recommendations 2.1.1 and 2.1.2 outlined above, the consequent Council Tax levels detailed in the formal resolution of the Director of Finance & IT's report.

2.5 To approve the Pay Policy Statement prepared in accordance with the requirements of Section 38 of the Localism Act 2011, including the changes to posts and structure as recommended by the Chief Officers Employment Committee, to have effect for the year 2016/17 unless replaced or varied by the Council, as set out in Appendix F.

3. BACKGROUND

Through successive Autumn Statements and Spending Reviews the previous coalition government and particularly the present government have chosen the very harsh route of austerity. The Prime Minister and Chancellor have indicated very forcibly 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 that period of public sector austerity which will continue until at least 2019/20 as outlined in the Chancellor's Autumn Statement and Comprehensive Spending Review in 2015 and confirmed in the Local Government Finance Settlement of 9th February 2016.

This proposed budget has therefore 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, particularly to our resident's needs. The Council's strategy has been, and continues to be, to prepare a budget that will deliver as far as possible the services our residents require, help to support those in hardship whilst encouraging the growth of jobs and businesses.

It has been well documented and previously reported that this Council has continued to face severe reductions in funding each year since 2010. In developing the Budget Strategy to respond to and manage the reductions in funding, the Council has taken early decisions, on recommendations from the Labour group, such as the 3 year Savings Programme of £26M approved at Council Forum on 25th September 2014 to be delivered by 1st April 2017; this year has been no different and the Budget for 2016/17 and the MTFS covering 2017/18, 2018/19 and 2019/20 include further savings proposals as outlined in Appendix C.

Since 2010/11, the Council has had to respond to fundamental changes to the financial framework for local authorities which the government has introduced, including:

- Local Council Tax Support Schemes replacing the National Council Tax Benefit Scheme (with overall funding reduced by 10% on transition and more thereafter).
- Business Rates Retention Scheme allowing local authorities to benefit from increases locally in Business Rates income but sharing the risk of any reductions.

- Changes to the structure and funding of schools and education services.
- The transfer of responsibility for the majority of Public Heath functions from the NHS, including the further transfer of Public Health commissioning responsibilities for 0-5 year olds in October 2015 (with a late in-year cut to funding in 2015 and further reductions in both 2016/17 and 2017/18 confirmed on 11th February 2016).
- The transfer of responsibility for the Crisis Loans and Community Care Grant elements of the Social Fund from the Department of Work and Pensions (DWP), with a significant reduction in funding
- The phased introduction of Universal Credit by the DWP which will eventually replace Housing Benefit
- Further integration of Health and Social Care with the introduction of pooled budgets through the Better Care Fund

Such fundamental changes will continue over the next 4 years including;

- 100% Business Rates Retention by local authorities to move to local financial independence away from central government. Although changes to the current Business Rates scheme will be introduced and additional responsibilities transferred to local government, as yet these are not clear
- The Sustainability and Transformation Programme in the NHS which will look to develop and implement integrated health and adult social care services across local authorities and the NHS
- Introduction of Combined Authorities and potential devolution deals
- Changes to the New Homes Bonus (NHB) scheme and the Better Care Fund (BCF) linked to the introduction of an additional Council Tax increase available to upper tier authorities to fund Adult Social Care

This paper therefore sets out the Labour Group's proposed Revenue Budget, Capital Programme and associated Council Tax level for 2016/17 together with the MTFS 2016/20 updated to reflect the local government finance settlement, funding uncertainty and other key risks. This reflects the corporate plan priorities and consultation undertaken with stakeholders.

4. RATIONALE

4.1 It is a statutory obligation for the Council to set a balanced Revenue Budget for the financial year 2016/17.

4.2 The key principles upon which both the Budget and the MTFS are based are:

- to balance the Council's budgets in each year of the MTFS period, ensuring that the Council has a sustainable and robust financial position in future years
- resourcing of services in line with Council priorities focusing on customer care and quality services against a backdrop of reducing resources
- planning for and managing change, whether related to need, demand for services, technological advances, legislation, local aspirations or resource allocation
- introducing a digital first approach to services whilst providing assistance and signposting to those who need it
- embedding a culture of value for money and efficiency savings (cashable and

non-cashable) in all activities

- devolved budget management to Executive Members (with portfolio) and service Directors
- balancing Council Tax increases with funding cuts and budget pressures
- maximising resources whether through grants, creating additional income or partnering opportunities
- ensuring significant risks are identified and mitigated where possible
- ensuring financial reserves reflect levels of business risk
- optimising capital spending freedoms

5. KEY ISSUES - RESOURCES

5.1 Local Government Finance Settlement.

The Local Government Finance Settlement sets out the amount of central government funding available to each Council. The Secretary of State for the Department for Communities and Local Government announced the Provisional Local Government Finance Settlement for 2016/17 on 17th December 2015. The Final Settlement for 2016/17 was published on 9th February 2016.

The key points to highlight are:

❖ For the first time in some years, the government has made a multi-year settlement "offer" to council's providing indicative funding allocations from 2016/17 through to 2019/20. These settlement figures however exclude the potential impact of a proposed move to 100% Business Rates retention. 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 should have been developed and be understood. However, the longer term settlement remains subject to change depending on the Treasury's view of the overall national financial position each year.

❖ As anticipated, there has been a significant cut in Revenue Support Grant (RSG) in 2016/17 reducing by £8.1M (22%) to £28.854M. RSG will continue to reduce in the following years and by 64% by 2019/20 (a reduction of £23.7M) which is much greater than we had expected over that period.

❖ Although New Homes Bonus will continue unchanged in 2016/17 consultation has been issued on reducing the funding timescales with effect from 2017/18 and introducing a base target for growth for which NHB would not be payable.

❖ The Council Tax referendum cap has been set at 4% in 2016/17 for authorities with social care responsibilities like ourselves based on;
    - 1.99% maximum general increase in Council Tax
    - 2% increase in Council Tax to assist in meeting the costs of adult social care functions

❖ Council Tax Freeze grant will not be available in 2016/17

5.2 Core Spending Power

The Government has announced that the Spending Power calculation published in previous years has been amended to exclude funding that is not directly controlled by local government; this calculation is now known as Core Spending Power.

Core Spending Power	**2015/16 Adjusted**	**2016/17**
	£ M	£ M
Settlement Funding Assessment (SFA)	77.4	69.6
Council Tax Requirement	41.9	44.1
Potential additional Council Tax from Adult Social Care flexibility	-	0.9
New Homes Bonus	1.5	1.7
Total	**120.8**	**116.3**
Change in Provision Revenue Spending Power		-£4.5m
Percentage Change		-3.7%

This calculation does not reflect inflationary and demand pressures which are expected to be self-funded.

5.3 Settlement Funding Assessment (SFA)

The SFA is split between resources received via:

- Revenue Support Grant (RSG),
- an assessment of the authorities share of Business Rates collectable plus
- a Top-up element

5.3.1 Revenue Support Grant

Revenue Support Grant (RSG) is the main central government grant given to local authorities and can be used to finance revenue expenditure on any service. The amount of RSG to be provided to authorities is established through the Local Government Finance Settlement.

The government had made it clear that RSG would reduce over time but by how much, over what timescale and at what rate had been unknown. We had assumed a reduction of 40% over the period 2016/17 to 2019/20 at a rate of 15%, 10%, 10% and 5% each year. Whilst the settlement for 2016/17 has provided clarity around this, it is worse than our assumption with reductions of 22%, 18%, 13% and 13% respectively being implemented. By 2019/20, based on the indicative settlement figures, RSG will have reduced from £37.0M in 2015/16 to £13.3M; a reduction of £23.7M (64%).

In issuing the final settlement to local authorities, the Secretary of State for Department of Communities and Local Government (DCLG) announced that over £150M of additional funding would be made available in the form of a Transitional Grant, to ease the pace of reductions during the next 2 years for those councils with the sharpest reductions in Revenue Support Grant. Unfortunately Blackburn with Darwen did not receive any of this allocation.

It was also announced that it is almost 10 years since the current grant distribution formula was last reviewed and there is now evidence to confirm that the demographic pressures, such as the growth in the elderly population and the cost of providing services, has affected different areas in different ways. As such there will be a review of the needs assessment formula to correspond with the move to the position where all local government spending will be funded by local resources, and this will be used to determine the transition to 100% business rates retention (see Section 5.16 below)

5.3.2 Local share of Business Rates

As part of the Business Rates Retention Scheme (BRR), the Council is able to retain 49% of the net Business Rates it raises locally, with 1% passed to the Fire Authority and 50% (the central share) paid over to government. This is uplifted for inflation each year.

Any gain or reduction in Business Rates compared to the amount included in the SFA is passed on to the three parties - 50% to the government, 1% to the Fire Authority and 49% retained by the Council. A "safety net" mechanism provides additional funding for any Council that suffers a reduction in their total Business Rates income of more than 7.5%.

5.3.3 Top Up

At the commencement of the BRR scheme, an amount of "start-up funding" was calculated for the Council based on the relative needs assessment previously used for 2012/13 grant allocations. The Council receives a top-up because the total of the Revenue Support Grant (RSG) PLUS the share of Business Rates it keeps is less than the "start-up funding".

5.4 Council Tax

Council Tax levels have remained frozen at their 2010/11 levels in Blackburn with Darwen for the past 5 years. The Council has decided to do so to support residents in what has been a very difficult financial climate, determined by the government's austerity measures, however, given the significant financial pressures and challenges that the Council now faces together with the removal of the Council Tax Freeze Grant referred to in Section 5.5 below, an increase in Council Tax, is an option that must be considered to address the budget gap alongside reductions in expenditure and increases in other available income streams such as Fees and Charges.

In the provisional Local Government Financial Settlement of 17th December 2015, the Secretary of State for Communities and Local Government made an "offer" to all authorities with responsibility for adult social care of the option of increasing the basic amount of Council Tax for 2016/17 by an additional 2% without holding a referendum; this was on the proviso that the increase would specifically be used to assist in meeting expenditure on adult social care functions. This "offer" comes with conditions attached requiring the authority to evidence that the additional funds raised will be applied for social care purposes.

Subject to the annual approval of the House of Commons, the Secretary of State intends to offer the option of setting this additional increase each year up to and including 2019/20. The proposed budget for 2016/17 includes an increase of 2% in respect of this. The government have assumed in their year-on-year comparator figures that all eligible authorities will introduce this additional charge.

5.5 Council Tax Freeze Grant

The Government provided a ‘Council Tax Freeze Grant’ each year since 2011/12 for those local authorities who agreed to freeze their Council Tax level in a particular year. This grant was then consolidated into the funding baseline for subsequent years.

There is no freeze grant available from 2016/17 and the government has again assumed that the majority of authorities will increase Council Tax up to the referendum limit of 2% (excluding the introduction of the permissible increase relating to adult social care functions). The MTFS reflects this position.

5.6 Council Tax discounts for empty properties

The Government has provided discretion for Councils in respect of the amount of Council Tax that is charged on empty properties. A separate report on this Agenda refers.

5.7 Housing Benefit Admin Grant

The Housing Benefit Admin Grant is the means by which local authorities receive funding from the Department of Work and Pensions (DWP) towards the cost of administering Housing Benefit in their local areas. Claimants obtain the benefits either by direct application to the authority or by applying simultaneously for income support/jobseekers allowance and Housing Benefit to the DWP. Eligibility for, and the amount of Housing Benefit paid is determined by the local authority. The Housing Benefit Admin Grant for 2016/17 is £0.64M which is a reduction of £0.13M compared to 2015/16.

5.8 New Homes Bonus

New Homes Bonus was introduced in 2011 as a “stimulus” for the provision of new homes and is a non-ring-fenced grant distributed between local authorities based upon new growth in housing provision in their area. The annual amount of the grant equates to one years’ average Council Tax for the band in which the new house would fall. Once earned, the amount is paid for six years. The Council has budgeted to receive £5.67M in respect of this over the period of the MTFS with £1.75M due in 2016/17.

A consultation has been issued and proposals made for future changes to the scheme, most notably a reduction (from 2017/18) in the number of years that any future bonuses would be paid either from;

- 6 years to 5 years and then to 4 years or
- a straight transition to 4 years from 2017/18.

The reduction of New Homes Bonus is linked to an increase in the Better Care Fund to £1.5 billion over the settlement period.

5.9 Education Services Grant Funding (ESG)

The Council receives a non-ring-fenced grant from the Department of Education called the Education Services Grant (ESG) to deliver the range of education related services required from local authorities. ESG is paid to local authorities on a per pupil basis to support its maintained schools together with some additional funding for the obligations that they are required to fulfil to both academies and maintained schools (known as "retained duties").

Due to changes in pupil numbers attending LA Maintained Schools and conversion of more schools to academy status it is estimated that the allocation for 2016/17 will reduce from £2.07M in 2015/16 to £1.75M 2016/17; a reduction of £0.32M.

5.10 Dedicated Schools Grant (DSG)

DSG is paid in support of the local authority's schools budget and funding is given in three notional blocks:

- Schools Block
- High Needs Block
- Early Years Block

The notional blocks are not individually ring-fenced but rather ring-fenced in total and local authorities are responsible for determining the split of the grant between their own central expenditure and the Individual Schools Budget in conjunction with their local Schools Forum.

Local authorities are also responsible for allocating the Individual School Budget to individual schools in accordance with their local schools' funding formula

Current estimates indicate that DSG for 2016/17 will be £98.73M (2015/16: £105.51M). The reduction in funding relates in the main to the increase in the number of Academies within the Borough.

The implementation of the National Funding Formula for Schools has been further delayed.

5.11 Pupil Premium

Funding for the Pupil Premium is allocated to local authorities to passport directly onto maintained schools to support the education of the most deprived and vulnerable learners. It is estimated that the Pupil Premium in 2016/17 will be £7.08M (2015/16: £7.38M).

This reduction in funding also reflects the increase in number of schools converting to academy status over the last 12 months.

5.12 Public Health

The Chancellor's Autumn Statement confirmed that local authority funding for public health would be reduced by an average of 3.9% in real terms per annum until 2020 (which equates to a reduction of 9.6% in cash terms over the same period). He also confirmed that the ring-fenced grant for public health functions would continue for at least two more years.

For 2016/17, the 2015/16 budget of £13.1M has been rebased to £15.6M to reflect;

- the full year equivalent of the transfer of the commissioning of 0-5 children's public health services from NHS England to local authorities on 1st October 2015 offset by
- the national in-year cut notified in November 2015 (which resulted in a reduction of £929,000 for Blackburn with Darwen) and
- a reduction in the total grant of 2.2% (£362,000)

A further reduction of *2*.5 per cent (£385,000) has been confirmed for 2017/18.

In addition to this we await the outcome of the national consultation on the introduction of a new formula to redistribute funding across all Public Health local authorities. Based on the options presented in the consultation, further significant reductions in funding are anticipated for Blackburn with Darwen.

5.13 Better Care Fund

The government is continuing with its proposals for greater integration between health and social care in order to find ways to tackle unsustainable increases in the demand for health and social care services in future years.

The Comprehensive Spending Review confirmed that the Better Care Fund (BCF) will continue into 2016/17 and beyond and committed a minimum of £3.9billion to fund this nationally. This funding must be spent locally on health and social care through pooled budget arrangements between local authorities and the NHS Clinical Commissioning Groups.

Following representations from local authorities, the BCF allocation formula has been tailored to take account of local demand for social care services and for the varying Council Tax bases of authorities and which impacts on their ability to raise additional funding from a 2% Council Tax rise. However, in looking at future BCF allocations, the government is assuming that authorities will apply the new Council Tax increase.

For 2016/17 the BCF revenue allocation is £10.97M (an increase of £166k compared to 2015/16) and for the capital allocation, the government recently announced a Disabled Facilities Grant (DFG) allocation of £1.46M. The Social Care Capital Grant of £428k in 2015/16 will not continue into 2016/17 as the Department of Health has stated that the value of this grant should be more than covered by the expansion of the DFG.

We are still awaiting specific guidance on the use of DFG within the BCF and also on further planning and technical guidance in respect of the BCF itself.

5.14 Care Act 2014

In 2015/16 the Council received a separate ring-fenced grant of £0.667M in order to cover the costs of implementing the Care Act 2014. The funding has been rolled into the Local Government Financial Settlement in 2016/17 and is therefore subject to the reductions incorporated within the Settlement confirmed on 9th February 2016.

5.15 Business Rates 2016/17

Rateable values and the rate in the pound (multiplier) are determined by the valuation office and central government and Business Rates income is contained within the Local Government Finance Settlement agreement. Actual Business Rates growth is shared with 49% of growth retained by the Council and 1% by the Fire Authority up to a limit beyond which a levy would be payable to central government. Reductions in Business Rate income are also shared, subject to a safety net, which is funded nationally from levies raised.

Whilst the system provides an opportunity for the Council to generate additional income and jobs in the Borough, risks also exist due to the potential outcomes of rating appeals both locally and nationally; 49% of the cost of any reductions in Business Rates as a result of a successful appeal within the boundaries of this authority are borne by the Council.

The 2% cap on Business Rates will continue in 2016/17, funded through a specific grant allocation.

Small Business Rate Relief has been sustained at 100% for 2016/17 with 50% funding from Treasury.

5.16 Business Rates beyond 2016/17

A consultation is to take place around proposals which would allow authorities to retain 100% of their local Business Rates. Work has begun on the detailed proposals and a technical consultation is expected in summer 2016.

It is clear from Treasury and DCLG publications that any additional funding due to Councils from 100% retention would need to be offset by the transfer of additional financial burdens, i.e. there would be no net increase in funding associated with the increase in Business Rate share.

It is not expected that such a mechanism could be introduced until 2018/19.

5.17 Growth Agenda

As a key partner in the Local Strategic Partnership, the Council is working to deliver the ‘Plan for Prosperity 2014 - 2020’ for the Borough. The Council is committed to delivering a more prosperous Borough and recognises that only by delivering higher rates of economic growth, whilst improving opportunities and the quality of life for residents, will the Borough’s future be secured and sustained.

Within the plan there is a commitment to deliver 3,250 additional homes over the period and an extra 100,000sqm of new commercial floor space. In turn this will 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, additional Council Tax and Business Rates income has been assumed as follows;

Additional Revenue;	2016/17	2017/18	2018/19	2019/20

	£'000s	£'000s	£'000s	£'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**

5.18 Fees and Charges

Executive Members, in conjunction with Chief Officers, regularly review all fees and charges for each portfolio. Council has delegated authority to Chief Officers, in consultation with the relevant Executive Members and the Director of Finance and IT, to agree changes where required.

The 2016/17 budget includes a target of £0.5M across the portfolios in respect of increased fees and charges. Some of the fees and charges have already been, or will shortly be increased in line with inflation and/or market rates such as Planning and Leisure fees, and proposals are being developed by Executive Members, supported by Officers, to increase income and funding streams by £2M by 2019/20.

In doing so a Commercial Board is in the process of being established to undertake a full review of current income levels across Council services and, based on the findings, varying strategies will be developed to maximise income including;

- expanding existing services;
- expanding existing markets;
- entering new markets;
- competing for contracts and
- in-sourcing

Service areas will be identified for review and draft business plans will be produced using a more commercial management approach to managing services which is an approach that has been successful in several other councils such as Nottingham City Council.

6. KEY ISSUES - EXPENDITURE

Given the further financial challenges ahead, Executive Members and Officers have again reviewed all services and prepared options to deliver budget reductions over a four year period.

The development of an approach, strategies and options to manage costs within the resources available to deliver a balanced budget has been ongoing since summer 2015. Inevitably the scale of the budget reductions in 2016/17 and beyond, combined with those already implemented since 2010 and despite the efforts of Executive Members and Officers, will lead to more significant reductions in the services provided to the residents of this Borough.

The various strategies and options developed to close the funding gap and balance the budget for 2016/17 through to 2019/20 are outlined below;

6.1 Workforce Review

Given the magnitude of the financial challenge facing the Council over the next four years, it is unfortunate but inevitable that there will be further job losses, including compulsory redundancies.

To meet the challenge a Workforce Review Programme has been established, under the leadership of the Executive Director of Resources, to undertake a fundamental workforce review through an Organisational Design programme over the next 18 months to 2 years. This will be undertaken as a rolling programme and will extend to all portfolios, departments and teams covering all roles and grades of staff, looking at 'job family' groupings and the impact on departments of the introduction and full utilisation of modern technology and new ways of working.

A savings target has been set for a reduction in the total salary bill of £13M by 2018/19; comprising reductions of £3M in 2016/17, rising to £9M in 2017/18 and to £13M in 2018/19.

This is not the position that the Council had envisaged however as salary costs (approx. £70M) represent approximately 23% of the total expenditure budget, in conjunction with the other savings proposals made below, there is very little alternative.

To assist in the process, open applications for early retirement and voluntary redundancy (ER and VR) will continue to be accepted and agreed where there is a service need and a financial saving to be made and all vacant posts will be reviewed with a view to deleting wherever possible.

6.2 Senior Management Structure Review

Given the Council's challenging financial position set out in this report, the Chief Officer Employment Committee met in February 2016 and has made recommendations for changes to the Chief Officer Structure as set out in Appendix F. These changes will realise on going revenue savings for Chief Officers alone of up to £217,000 and continue to maximise partnership working opportunities. In addition, a partnership with Lancashire County Council related to the sharing of our Director of Children's Services will also contribute up to £50,000 to the Council's senior management costs as a one off in 2016/17 and will then be subject to further review. Additional savings in associated business support costs will also be factored into the wider workforce review.

6.3 Portfolio Budget Pressures

Since 2010 the Council has faced substantial reductions in government funding as well as other corporate and service pressures; based on the financial settlement for 2016/17, and the indicative funding figures for the 3 years thereafter, the period through to 2019/20 will present even further financial challenge in setting a balanced budget each year as required by statute.

In delivering the budget for 2016/17 and preparing the MTFS, the Council has identified and reviewed the budget pressures faced across all of the portfolios and a programme of savings options has been developed to address these as well as the reductions in funding noted above. The total of these portfolio specific savings amount to £10.3M for 2016/17 increasing by a further £3.6M in 2017/18. These figures include the second and third years of the 3 year savings programme agreed in September 2014.

An overview of some of the most significant cost pressures are as follows;

6.3.1 Health and Adult Social Care

Adult Social Care has faced another very challenging year in 2015/16 and has been unable to manage the ongoing financial pressures within budget due to continuing trends in demand and increasing complexity of service user needs which have not been abating.

Strategies deployed in recent years have mitigated the financial pressures and risks by greater use of modern technologies such as telecare, by establishing new ways of working such as reablement to support some of our most vulnerable citizens and through working with our efficiency partner to realise efficiency savings. Whilst the portfolio has continued to deliver efficiencies during the year, the ongoing financial pressures from 2014/15 and 2015/16 could not be contained and the Council has again been required to utilise reserves to manage this budget.

This is not just a local issue; it is a national pressure which the Local Government Association (LGA) has raised as the most significant issue for local government. The topic continues to attract national media attention and is widely reported in the national press and on social media.

A comprehensive review of the Adults Social Care budget, of the Better Care Fund arrangements with the NHS and the continuing work of the department in association with the Councils efficiency partner has been completed during 2015/16. A bottom up approach to reviewing budgets has been undertaken, including a full review of year-on-year financial and activity data, which has resulted in the Adult Social Care budget being rebased for 2016/17. Service pressures identified corporately in the MTFS have now been allocated to the portfolio to address demand and service risk.

6.3.2 Children's Services

In the last year there have been financial pressures within Children's Services which the portfolio has tried to contain, whilst ensuring that the most vulnerable of our children are protected. In the latter part of 2015 the number of referrals, the number of open cases and the number of looked after children has been increasing. The requirements of these children are substantial and many of the commissioned placements are very expensive. These are the most vulnerable young people in our Borough for whom we have a duty, and are committed to protecting and looking after to ensure the best possible outcomes for them. As such significant reductions in this portfolio's budget are more difficult to achieve.

6.3.3 Environment

The portfolio has, and will continue to face particular cost pressures arising due to increased tonnages in waste management.

6.3.4 Leisure, Culture and Young People

In addressing the financial issues presented, the portfolio has continued to adopt a more commercial approach in delivering its activities across the Borough and has generated additional income through both existing and new income streams, particularly in the Leisure Centres. However, in a highly competitive market, the portfolio faces increasing pressure to maintain and grow the income levels achieved to date.

6.4 Other Pressures

6.4.1 Pensions

The Local Government Pension Scheme (LGPS) is administered by Lancashire County Council and actuarial revaluations are undertaken every 3 years. At the last actuarial review (undertaken at 31st March 2013) an assessment of the pension scheme deficit was calculated at that date and a level of fixed contributions determined on the basis of recovering the estimated deficit over the following 19 years; in addition to this, Employer Pension Contributions have also been payable into the pension scheme each month at 12.7% of the salary costs of those employees currently paying into the scheme.

The next actuarial review is due to be undertaken at 31st March 2016, but as yet it is unknown as to whether the rate of the fixed contributions and/or the rate of the Employer Pension Contributions on current employee membership will increase.

It has been assumed within the MTFS that pension contributions during the following three years with effect from 1st April 2017 will remain at the current levels.

6.4.2 National Living Wage

From April 2016, the government will introduce a new mandatory national living wage (NLW) for workers aged 25 and above, initially set at £7.20 per hour (a rise of 50p relative to the current National Minimum Wage (NMW) rate) increasing to £9.00 per hour by 2019/20.

As a result of this, the financial pressure on the Council’s own salary costs has been assessed and included within the MTFS however it is recognised that the NLW will also have a significant impact on our external providers, such as those providing Social Care including residential and domiciliary care.

The impact of the NLW on our external providers is not yet fully known. Although we have built some inflationary pressures into our commissioning budgets it is not possible at this time to ascertain if this will fully cover any additional costs. This potential cost pressure has been taken into consideration in assessing the minimum level of reserves for the Council (as per the ‘Robustness of the 2016/17 Budget and the Recommended Level of Reserves’ report which is also on the Finance Council Agenda).

6.4.3 Universal Credit

Whilst Universal Credit commenced for some new claimants in Blackburn with Darwen in November 2014, the introduction has been very slow because of the ‘test and amend’ approach that the DWP has taken i.e. as new claim types and circumstances are reviewed, the Universal Credit claim process is refined to accommodate them.

The transition of current claims on to Universal Credit has now been outlined in detail by the DWP. Whilst we do not have a full understanding of the timescales for this, it has been confirmed that a full roll out to existing, working age claimants will be completed 2020/21.

The longer term impact of this is still to be assessed.

6.4.4 Removal of 4 days leave without pay

The Council has been in discussions with the Trade Unions regarding the continuation of the current Leave Without Pay Agreement (LWOP) however following discussions at a regional level, the joint Trade Unions were unable to agree to any more than a one year extension to the scheme.

When it commenced the Agreement delivered approximately £1M savings each year and the staff included on the Exemption List for this were limited. This resulted in savings equivalent to around 30-50 full time (or 60-100 part time) posts however the impact of this has now reduced to approximately £750k in 2015/16 as the workforce has reduced year on year and the number of staff on the Exemption List has increased.

The Council recognises that the financial challenge presented will require significant savings from the workforce and so in light of the above, and the uncertainty of an agreement beyond 2016/17, it has been agreed that the arrangement will lapse at the end of March 2016 although staff will continue to have the option of taking LWOP if they so choose.

As part of our wider savings plans however we have been working with the Trade Unions and made some amendments e.g. to travel and car parking arrangements although we have retained essential user allowances for those staff who regularly need to use a car to carry out their work. The subsidy for staff car parking facilities in Blackburn town centre have also been reduced.

7. SUMMARY

In light of the settlement for 2016/17, the financial constraints on the authority and the requirement to continue with further reductions in net expenditure each year, the Leader and the Executive Members will continuously review the allocation and use of resources. This will include continued review of all expenditure and income budgets, of contractual commitments and property holdings and they will work with officers to implement the recommendations of the Workforce Review programme, set in the context of the Council’s statutory responsibilities and corporate priorities.

8. CAPITAL PROGRAMME 2016-2020

A Capital Programme for 2016 to 2020 of £53.3M is also recommended to the Finance Council for approval as detailed at Appendix D. Despite the financial constraints there is still a need for a substantial capital investment programme over the next few years, albeit significantly reduced from previous years. The programme recognises the importance of investment in the Borough and the impact that the schemes themselves will have on the regeneration and economic growth of the area in the future.

The Capital Programme includes the following major infrastructure schemes:

- Pennine Reach
- Highways Network Recovery Scheme
- Local Transport Plan

These major infrastructure schemes will contribute towards the achievement of the Council's key priority of creating more jobs and business growth during their construction and in improving transport networks and enhancing the town centre.

Current commitments will continue to be reviewed to bring forward any additional schemes, subject to approval of robust business cases, and capital allocations for schools will be added to the programme when provided by the Department of Education.

9. LEVEL OF RESERVES

As noted in the report 'The Robustness of the 2016/17 Budget and the Recommended Level of Reserves', the Director of Finance and IT is recommending to this Finance Council that the minimum level of Unallocated reserves for 2016/17 is set at £4.0M.

10. COUNCIL TAX

The assumptions made within these budget proposals, in line with governments assumptions, for 2016/17 are that the Council will increase Council Tax in 2016/17 by 3.99% reflecting;

1.99% - general increase in Council Tax to cover increases in the cost of Council services

2.00% - to assist it in meeting expenditure on adult social care functions

11. MEDIUM TERM FINANCIAL STRATEGY

The MTFS 2016 to 2020 has been reviewed and updated, incorporating the indicative funding allocations included in the multi-year settlement "offer" received as part of the 2016/17 Local Government Financial Settlement and including other projections, forecasts and assumptions as outlined in Appendix E.

12. CONCLUSION

The proposed revenue Budget Strategy will continue to focus on delivering on the Council's priorities and will try to minimise the impact of spending cuts with the delivery of quality efficient and effective services to and for the citizens of this Borough, whilst ensuring the Council operates within the financial constraints imposed by central government.

13. APPENDICES

Appendix A - Budget Summary 2016/17
Appendix B - Balancing the 2016/17 Budget Gap
Appendix C - 2016/17 Budget Savings Proposals
Appendix D - Capital Programme 2016-20
Appendix E - Medium Term Financial Strategy 2016-20
Appendix F - Pay Policy Statement 2016/17

14. POLICY IMPLICATIONS

The budget process is the mechanism by which the Council allocates resources so that it can achieve its policy objectives agreed at Policy Council.

15. FINANCIAL IMPLICATIONS

The budget process will determine the level of net revenue expenditure for the Council in 2016/17, the Capital Programme and the level of Council Tax, together with indicative figures for the following 3 years.

16. LEGAL IMPLICATIONS

The Council is legally obliged to set a balanced budget. The Local Government (Standing Orders) (England) (Amendment) Regulations 2014, which came into force on 25 February 2014 require local authorities to record in the minutes of a budget decision meeting the names of persons who cast a vote for or against the decision or who abstained from voting.

The Local Government Finance Act 2012 and Statutory Instruments 2012 No 2965 allow local authorities the power to reduce or remove council tax discounts where a property is unoccupied.

17. RESOURCE IMPLICATIONS

Decisions taken during the budget process will affect the resources allocated to all service areas.

18. EQUALITY IMPLICATIONS

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

19. CONSULTATIONS

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

CONTACT MEMBER: Councillor Andy Kay, Executive Member for Resources

DATE: 19th February 2016