Finance Council
27th February 2017

AGENDA

PART I – ITEMS FOR CONSIDERATION IN PUBLIC

1 Chief Executive to read the notice convening the meeting.

2 Prayers.

3 Apologies.

4 Minutes

To receive and confirm the minutes of the Council Forum meeting held on 26th January 2017 (Pages 3-11).

5 Declarations of interest

Form attached (Page 12)

6 Mayoral communications.

In respect of the following Items 7 and 8, technical questions on the contents of the report should be raised directly with Louise Mattinson, Director of Finance and IT tel: 01254 585600 by 12 noon Friday 24th February 2017.

7 <u>Treasury Management Strategy, Prudential Indicators, and Minimum Revenue Provision Policy 2017/18</u>

Report of the Director of Finance and IT (Attached pages 13~37).

Council is required to approve a Treasury Management Strategy before the start of each financial year. It must also set Treasury and Prudential Indicators, and a policy for a "prudent" level of Minimum Revenue Provision for repayment of debt, consistent with the Council's Medium Term Financial Strategy.

In respect of items 8 and 9, Council are reminded that under Section 25 of the Local Government Act 2003 Members have a duty to have regard to the robustness report of the Director of Finance and IT the Council's Section 151 Officer. As such the Mayor will only accept amendments that have a robustness report from the Director of Finance and IT attached. The Mayor will then ask if it is the intention

of any Member to put forward an amendment during the debate on the Budget. This will help allow a reasonable debate on the Budget.

8 The Robustness of the 2017/18 budget and the Recommended Level of Reserves

Report of the Director of Finance and IT (Attached pages 38~48)

This report provides statutory advice to Members when setting the budget in accordance with the Local Government Act 2003 and needs to be received by Members prior to the Council formalising the budget process and setting the Council Tax.

In respect of Items 9 and 10 below, under the Local Government (Standing Orders) (England) (Amendment) Regulations 2014, which came into force on 25 February 2014, the Council is required 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.

9 Revenue Budget 2017/18, Medium Term Financial Strategy and Capital Programme 2017 - 2020

Report of the Executive Member for Resources (Attached pages 49~87)

The report recommends to Finance Council the Budget Strategy and the proposals for the Revenue Budget 2017/18, the indicative revenue budget for 2017/18 Medium Term Financial Strategy (MTFS) and Capital Programme for 2017-20 to underpin the priorities agreed at Policy Council on 01 December 2016.

10 Council Tax for 2017/18

Report of the Director of Finance and IT (Attached pages 88~94)

The report will advise Council that in its role as billing authority it is required to set amounts of Council Tax before 11th March in the financial year preceding that for which it is set.

Harry Catherall,
Chief Executive
17th February 2017.

COUNCIL FORUM
Thursday 26th January 2017

PRESENT – *The Mayor Councillor Akhtar H., (in the Chair), Councillors; Ali; Bateson; Connor; Daley; Davies; Desai; Entwistle; Fazal; Foster D; Foster K; Gee; Groves; Hardman; Humphrys; Hussain I; Hussain S; Jan-Virmani; Johnson; Kay; Khan M; Khan Z; Khonat; Lee; Liddle; Mahmood A; Marrow; McFall; McGurk; Mulla; Murray; Nuttall; Oates; Patel; Pearson; Rigby C; Riley; Shorrock; Sidat; Slater Ja; Slater Jo; Slater Ju; Slater N; Smith D, Smith J; Surve; Talbot; Tapp; Taylor; Vali; Whittle and Wright.*

RESOLUTIONS

49 Notice Convening Meeting

The Chief Executive read the notice convening the meeting.

At this point of the meeting a minutes silence was observed in memory of Councillor Don McKinlay.

50 Apologies for Absence

Apologies for absence were submitted on behalf of Councillors Parwaiz Akhtar, Stephanie Brookfield, Jim Casey, Julie Gunn, Dave Harling, Pete Hollings, Faryad Hussain, Quesir Mahmood, Trevor Maxfield, Jean Rigby, and John Roberts.

51 Minutes of the Council Forum Meeting held on 1st December 2016

RESOLVED – That the Minutes of the Council Forum meeting held on the 1st December 2016 be agreed as a correct record.

52 Declarations of Interest

Declarations of Interest were received as follows:

For Agenda Item 9: Councillors Connor, Entwistle, Groves, Hardman, Hussain F, Hussain S, Jan-Virmani, Khonat, Mahmood A, Marrow, McGurk, Mulla, Patel, Sidat, Talbot, Taylor and Whittle.

The Chief Executive reminded Councillors who had declared an interest that they would need to leave the room ahead of consideration of Item 9 – Council Tax Support Scheme.

53 Mayoral Communications

The Mayor welcomed Cllr Amy Johnson to her first meeting of the Council. The Mayor updated the meeting on recent activities and events he had attended since the last meeting, including various Christmas events.

The Mayor had attended the Holocaust Memorial Day event earlier in the week, which had been very well attended and organised and was an important annual event remembering all victims of genocide, oppression and torture.

Other visits included Royal Blackburn Hospital and East Lancashire Hospice, which was one of the Mayor's Charities and had recently been voted outstanding by the Care Quality Commission.

Finally, the Mayor reminded Members that Mayor's Ball tickets were available from the Mayor's Office – the Ball would take place on 21st April 2017.

54 Council Forum

The Chief Executive advised that no questions had been received from Members of the Public under Procedure Rule 10.

55 The Motions Submitted under Procedure Rule 12

The Chief Executive announced that two Notices of Motion had been submitted under Procedure Rule 12 as follows:

Motion 1 – Road Safety

Blackburn with Darwen Borough Council notes the concerns of local residents on the subject of road safety and in particular has received representation about the issues related to the hire of vehicles, whether as day hire or through leasing schemes.

Our main aim is not to unduly restrict the hiring of vehicles but to stop misuse and bring about more sensible behaviour. In moving this motion we wish to prevent people from harming themselves, others and property. We want to make Blackburn with Darwen a safer place for drivers, cyclists and pedestrians.

We resolve to ask the Chief Executive to write to the appropriate Government Department Ministers and our local MPs Kate Hollern and Jake Berry and to ask them to work with the relevant insurance agencies to bring forward legislation that restricts the ability of young drivers to hire high powered vehicles for limited periods of time or for other drivers to hire such vehicles and then allow young and inexperienced drivers to use them. This practice is a

cause of significant concern for our constituents and has been a contributory factor in some serious road accidents.

Mover – Cllr Shaukat Hussain
Seconder – Cllr Arshid Mahmood

Following debate, the Motion was carried.

RESOLVED – That the Motion be carried.

Motion 2 – Electoral Reform

The government has proposed that in 2018 all voters in elections in Blackburn with Darwen will need to supply a piece of photographic evidence to prove their identity if they are going to be allowed to vote at Polling Stations. This change is being introduced to deal with the potential issue of voter impersonation although there have been no proven examples of this crime within BwD.

This change will significantly inconvenience all law abiding electors and, in some cases will prevent them from voting because they will not be able to supply the relevant documentation. It will involve the Council in additional expensive bureaucracy and will also present serious operational problems for polling clerks who will be expected to check pieces of documentation while a large queue of angry voters build up.

On behalf of all law abiding electors in Blackburn with Darwen, this Council calls upon the Chief Executive to make these concerns known to the Electoral Commission and we ask the two local MPs, Kate Hollern and Jake Berry, to support this action and to use their influence within their respective political parties to stop this unnecessary attack upon the democratic rights of their constituents.

Mover – Cllr Phil Riley
Seconder – Cllr Mohammed Khan

During debate on this item Councillor John Slater requested a recorded vote, which was seconded by Councillor Denise Gee.

Councillor David Foster seconded by Councillor Roy Davies, moved an amendment to the Motion as follows:

After the last paragraph add a new paragraph; "The Council is also concerned at the anecdotal reports circulating each year concerning the misuse of the postal voting system. It asks the Chief Executive to write to the Electoral Commission requesting that they carry out an in depth review with a view to

reducing the possibilities of misuse of the postal voting system".

Following debate, Council Forum moved to a vote on the amended Motion, which was lost.

Council Forum then debated the original motion at length before moving to a recorded vote, with Councillors voting as follows:

For:
Councillors; Akhtar H, Bateson, Davies, Desai, Entwistle, Fazal, Foster D, Foster K, Groves, Humphrys, Hussain I, Hussain S, Jan-Virmani, Johnson, Kay, Khan M, Khan Z, Khonat, Liddle, Mahmood A, McFall, McGurk, Mulla, Nuttall, Oates, Patel, Riley, Shorrock, Sidat, Smith D, Smith J, Surve, Talbot, Taylor, Vali, Whittle, Wright.

Against:
Councillors; Ali, Connor, Daley, Gee, Hardman, Lee, Marrow, Murray, Pearson, Rigby C, Slater Ja, Slater Jo, Slater Ju, Slater N, Tapp.

The vote was carried.

RESOLVED – That the Motion be approved.

Ahead of consideration of the next item Council Tax Support Scheme, Members who had declared interests left the room.

56 Council Tax Support Scheme

The Welfare Reform Act contained provisions which abolished Council Tax Benefit and recommended localised schemes to be administered by Local Authorities throughout England with effect from 1st April 2013.

As a consequence of the legislation, it was agreed at full Council on 31st January 2013 that the localised scheme adopted by Blackburn with Darwen BC would be means tested in the same way as Council Tax Benefit, however, awards would be 20% less for working age claimants than the previous national scheme.

In preparation for setting the budget for 2017/18, the Council was obliged to formally continue the scheme already agreed or make any adjustments prior to 1st April 2017. The report sought to fulfil the necessary legal requirements and confirm Blackburn with Darwen BC's Council Tax Support scheme for 2017/18.

There were no changes proposed to the calculation of the scheme, however a

number of minor changes relating to welfare benefits terminology had been made.

RESOLVED –

a) That the contents of the report were noted
b) That the Council Tax Support Scheme that was approved by Council in January 2016 continue for the financial year 2017/18, and;
c) That any subsequent technical amendments to the Council Tax Support Scheme that may be required in 2017/18 following legislative changes be delegated to the Director of Finance & IT, in consultation with the Executive Member, Resources.

Those Members who had left the Chamber for this item were advised this agenda item had concluded and were invited to resume their seats.

57 Review of Minimum Revenue Provision Policy

Members were advised that a review of the Council's MRP (Minimum Revenue Provision) Policy had been undertaken and the report submitted presented proposals to amend the current policy.

At Council Forum in January 2016, The Council changed its approach to making MRP on supported borrowing mainly in respect of assets financed from borrowing up to 31st March 2008. The change involved a switch from making MRP at 4% of the relevant carrying CFR (which had reflected the notional level of historic government grant funding support) to making MRP on this element of the CFR at a straight 2% over 50 years.

During 2016/17, the Council had undertaken a further review of its MRP calculation methodology and accounting assumptions. To assist in this complex work the Council engaged the services of its Treasury Management advisors, Arlingclose, to review the policy and advise on best practice. From the review it was concluded that the current policy was very conservative compared to many other Councils and therefore recommendations for changes in calculation methodology had been developed which would still ensure that prudent provision was made, but which would change the profile or spread of the costs over time for charges made in 2016/2017 and beyond.

There were four key areas where recommendations for change to the current policy were made, which were outlined in the report submitted and summarised in the recommendations below. It was proposed for these to take effect from 2016/17.

RESOLVED-

a) For capital expenditure that is self-financed from debt arising in 2007/08 and thereafter – to continue to use the Asset Life Method, but to use the

annuity variant based on the average Public Works Loan Board (PWLB) annuity rates prevailing in the year of the expenditure, rather than the current method of charging MRP on a straight line basis over the estimated life of the asset.

b) For finance leases and 'on-balance sheet' Private Finance Initiative (PFI) contracts – to again use the annuity variant of the Asset Life Method but using the annuity rates built into the financing arrangements, rather than the current method of matching the MRP to the value of the rent / charge that is charged each year to write down the balance sheet liability of respective finance lease or PFI contract.
c) For historic debt that was entered into prior to unitary authority status and is managed by Lancashire County Council (LCC) – to spread the cost on a straight line basis over 49 years, in alignment with the profile for historic supported borrowing; and
d) In those cases where asset lives cannot be readily determined – to use a default period of 20 or 25 years in line with government guidance.

58 <u>Arrangements for the Appointment of External Auditors</u>

A report was submitted which advised the Council of the new arrangements for the appointment of the Council's external auditors for the audit year 2018/19.

If the Council wished to utilise the national scheme for appointing auditors in the future, which would be operated by Public Sector Audit Appointments (PSAA), it needed to accept the PSAA's invitation to do so by early March 2017. The paper sought approval for this and in doing so, approval for the PSAA to appoint the Council's external auditor for the 2018/19 accounts and beyond; this recommendation was endorsed by the Audit & Governance Committee at their meeting on 10th February 2017.

Under the Local Audit & Accountability Act 2014 there are three options regarding the arrangements to appoint our own external auditors. These were:

a) Opting into a sector led body arrangement that may be established as the appointing person Under the ACT;
b) Establishing the Council's own independent auditor panel to make a stand-alone appointment; or
c) Join with other authorities to establish a joint auditor panel to make the appointment.

These options were discussed in the report submitted with option a) recommended.

The Council's external auditors were currently working under a contract originally let by the Audit Commission. The contract was novated to PSAA

following the closure of the Audit Commission.

PSAA was inviting the Council to opt in, along with all other authorities, so that it could enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council auditor.

At present, apart from two district Councils, all the other Councils in Lancashire were planning to use the sector led approach.

RESOLVED - That the Council accepts the invitation from PSAA to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.

59 Electoral Review 2016-17 Warding Proposals

A report was submitted that asked the Council to agree a submission to the Local Government Boundary Commission for England (LGBCE) on Warding Arrangements for Blackburn with Darwen Borough Council.

Blackburn with Darwen Borough Council currently had 64 elected Members in 23 wards. Following the agreement at Council on 6th October 2016 the Boundary Commission formally confirmed the size of Blackburn with Darwen Borough Council to be 51 Councillors for 17 Wards by 2018 to ensure appropriate levels of Governance, Scrutiny and Community Leadership which also allowed for the Authority to continue to elect its Members by thirds.

Using the Boundary Commissions guidance to develop a new Warding proposal for the Borough, several factors were taken into consideration, primarily the statutory criteria of;

- Delivering electoral equality for local voters
- Interests and identities of local communities
- Effective and convenient local government

In the spirit of openness, transparency and inclusivity there had been several joint meetings with all of the political Group Leaders and an ongoing invitation outside of these meetings for each political Group to submit any minor revisions to a working draft, the end product being the draft Council proposal attached to the report submitted.

The draft proposal did not automatically become the new arrangements, even if agreed by the Council: The final decision was that of the Commission and not of the Council – hence it was important for as wide a range of stakeholders as possible to engage with the Commission throughout the consultation.

Subject to Council agreement of Appendix A, the Commission would be

advised of the decision reached and asked to place what then became the Councils proposal on their website for public consideration, comment and alternative proposal(s).

RESOLVED –

a) That the Council agree the Warding proposals detailed in Appendix A of the report, as the Council submission to the Local Government Boundary Commission; and

b) Authorise the Chief Executive to formally submit the proposal on Council Warding arrangements from May 2018 to the Local Government Boundary Commission for England for their inclusion as early as possible in the next round of consultation.

60 Policy and Corporate Resources Committee

Ahead of consideration of the report, Members from all parties paid tribute to the work of the late Chair of the Committee, Councillor Don McKinlay.

RESOLVED – That the report of the Policy and Corporate Resources Overview and Scrutiny Committee be noted.

61 Reports of the Executive Members with Portfolios

Council Forum received and considered reports of the Leader and Executive Member with portfolios. They were considered as follows: Leader, Health and Adult Social Care, Children's Services, Environment, Leisure, Culture and Young People, Neighbourhoods and Prevention, Resources, Schools and Educations and Regeneration.

In moving her report, the Executive Member for Children's Services made reference to a 25% increase in demand for Early Help right through to the numbers of children in care. A specialist company had been appointed to help staff deal with the pressure of children going into care.

The Executive Member for Environment updated the Council Forum on the sign up by customers for brown bins, 6,140 had signed up with 15% being new customers.

The Executive Member for Leisure, Culture and Young People in submitting his report congratulated staff and volunteers for their contribution to ensuring Leisure provision continued to be provided, further details of which were contained in the report submitted.

In moving his report the Executive Member for Regeneration referred to a

recent successful bid by LCC and BwD for £12.96M for a Government Scheme relating to cycle and walking to work, and the efforts of the Officers concerned were noted.

RESOLVED – That the reports of the Leader and Executive Members for the following portfolios: Health and Adult Social Care, Children's Services, Environment, Leisure, Culture and Young People, Neighbourhoods and Prevention, Resources, Schools and Educations and Regeneration be noted.

62 Questions Received from Members under Procedure Rule 11

The Chief Executive reported that one question had been received from Councillor David Foster under Procedure Rule 11 as follows:

How many of the repairs highlighted in the Capita Condition Surveys of October and November 2015 of the Darwen Market complex have been completed and what is their monetary value?

Councillor Phil Riley referred to a response to this question which he had emailed to Cllr Foster earlier in the day and confirmed that the costs of the Market works had been £18,040, and structural works to Railway Road under stores cost approximately £7,500.

In response to a supplementary question from Cllr Foster on urgent works identified 12 months ago, Councillor Riley confirmed that the most urgent work had been carried out and he would investigate where the works were up to in the schedule and let Councillor Foster have the relevant information.

Signed at a meeting of the Council
on the day of
(being the next ensuing meeting of the Council) by

MAYOR

DECLARATIONS OF INTEREST IN

ITEMS ON THIS AGENDA

Members attending a Council, Committee, Board or other meeting with a personal interest in a matter on the Agenda must disclose the existence and nature of the interest and, if it is a Disclosable Pecuniary Interest or an Other Interest under paragraph 16.1 of the Code of Conduct, should leave the meeting during discussion and voting on the item.

Members declaring an interest(s) should complete this form and hand it to the Democratic Services Officer at the commencement of the meeting and declare such an interest at the appropriate point on the agenda.

MEETING: **FINANCE COUNCIL**

DATE: **27th FEBRUARY 2017**

AGENDA ITEM NO.**:**

DESCRIPTION (BRIEF):

NATURE OF INTEREST:

DISCLOSABLE PECUNIARY/OTHER (delete as appropriate)

SIGNED :

PRINT NAME:

(Paragraphs 8 to 17 of the Code of Conduct for Members of the Council refer)

REPORT OF:	**DIRECTOR OF FINANCE & IT**
TO:	**FINANCE COUNCIL**
ON:	**27th FEBRUARY 2017**

SUBJECT : TREASURY MANAGEMENT STRATEGY, PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION POLICY 2017/18

1. PURPOSE OF THE REPORT

1.1 The Council is required to approve a Treasury Management Strategy before the start of each financial year. It must also set Treasury and Prudential Indicators and a policy for determining a "prudent" level of Minimum Revenue Provision for repayment of debt which is consistent with the Council's Medium Term Financial Strategy (MTFS).

2. RECOMMENDATIONS

2.1 The Council is recommended to approve:

(a) the proposed Treasury Management Strategy for 2017/18, including Treasury Management Indicators, as outlined in Appendix 1;

(b) the proposed Prudential Indicators for 2017/18, as outlined in Appendix 2;

(c) the proposed policy for determining the Minimum Revenue Provision (MRP) for repayment of debt, as outlined in Appendix 3.

3. BACKGROUND

3.1 The Council has adopted CIPFA's latest *Code of Practice on Treasury Management in the Public Services* and associated Guidance Notes. The proposed Treasury Management Strategy at Appendix 1, complies with both the CIPFA Code (2011 edition) and with the current guidance on Investments from the Department of Communities and Local Government (CLG) issued in March 2010.

3.2 CIPFA also issues the *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code), a professional code of practice to support local authorities in taking capital investment decisions. The current requirements of the Prudential Code have been followed in determining a range of proposed Prudential Indicators for 2017/18, as outlined in Appendix 2.

4. RATIONALE

4.1 The CIPFA *Code of Practice on Treasury Management in the Public Services* requires the Council to approve a Treasury Management Strategy, including various Treasury Management Indicators, before the start of each financial year.

4.2 The Council must also set Prudential Indicators to assess and measure the

affordability, sustainability and prudence of its capital investment plans. These, together with the policy for setting a "prudent" level of Minimum Revenue Provision for repayment of debt, must be consistent with the Council's Medium Term Financial Strategy.

5. KEY ISSUES

5.1 Working within the regulatory and professional frameworks, the Council usually considers and agrees an Annual Treasury Strategy before the start of each year. This is followed up with a mid-year Strategy Review, considered alongside the Annual Outturn Report, summarising the position for the previous financial year. The key requirements for the Council are to maintain its two investment priorities:

1. the security of capital and
2. the liquidity of its investments

and to seek the most cost effective way of managing its debt portfolio.

5.2 The Prudential Code provides a framework to ensure that the capital investment plans of the Council are affordable, prudent and sustainable. The prudential indicators required by the Prudential Code are designed to support and record local decision making in a manner that is publicly accountable.

6. POLICY IMPLICATIONS

The policy implications from this report are contained within the Budget Strategy.

7. FINANCIAL IMPLICATIONS

7.1 The financial implications arising from the proposed recommendations contained within this report have been incorporated into the 2017/18 Budget, the Medium Term Financial Strategy and Council Tax recommendations to be considered by the Council.

8. LEGAL IMPLICATIONS

Under the Local Government Act 2003, local authorities must determine their levels of capital investment and associated borrowing. The Prudential Code has been developed to support local authorities in taking these decisions, and the Council is required, under Regulation 2 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as originally published), to have regard to the Code when carrying out its duties under Part 1 of the Local Government Act 2003.

Local authorities are required each year to set aside resources as provision for debt repayment. Previous detailed rules setting out how to calculate such a Minimum Revenue Provision (MRP) have been replaced by the requirement to make a "prudent" provision, under regulations 27 and 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008.

9. RESOURCE IMPLICATIONS

None as a direct consequence of this report.

10. EQUALITY IMPLICATIONS

The decisions to be taken do not change policy and do not require any further consideration in respect of equality issues

11. CONSULTATIONS

The issues raised in this report have been discussed previously with Audit Committee and the Treasury Management Group.

Chief Officer:	Louise Mattinson, Director of Finance and IT – Ext 5600
Contact Officer:	Ron Turvey, Deputy Finance Manager – Ext 5303
Date:	15h February 2017
Background Papers:	Capital programme 2017-2021 and associated papers

Appendix 1

TREASURY MANAGEMENT STRATEGY 2017/18

1. Introduction

CIPFA Treasury Management Codes require the Council to approve a Treasury Management Strategy before the start of each financial year. This requirement is also set out in the guidance issued by the Department for Communities and Local Government (CLG). This report fulfils the Council's obligations under both of these sets of guidance.

The Authority both borrows and invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.

In accordance with the CLG Guidance, should the assumptions on which this report is based change significantly, it may be necessary to seek approval to a revised Treasury Management Strategy. Such circumstances could include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of investments made or borrowing required.

2. Economic Context

2.1 Economic Overview

Economic background: The major external influence on the Authority's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, but the Bank is expected to continue to exercise caution over increasing interest rates so as to avoid derailing the economy. The prospect of leaving the single market has dented business confidence and delayed new business investment and, unless counteracted by higher public spending or retail sales, this is expected to weaken economic growth in 2017/18.

Overseas, the US economy and its labour market show steady improvement, so the Federal Reserve is projected to increase interest rates a little. However the Eurozone has continued to struggle with very low inflation, and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

The potential for political uncertainty to continue to impact on financial markets remains high, with significant elections due in France and Germany in 2017.

Credit outlook: Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

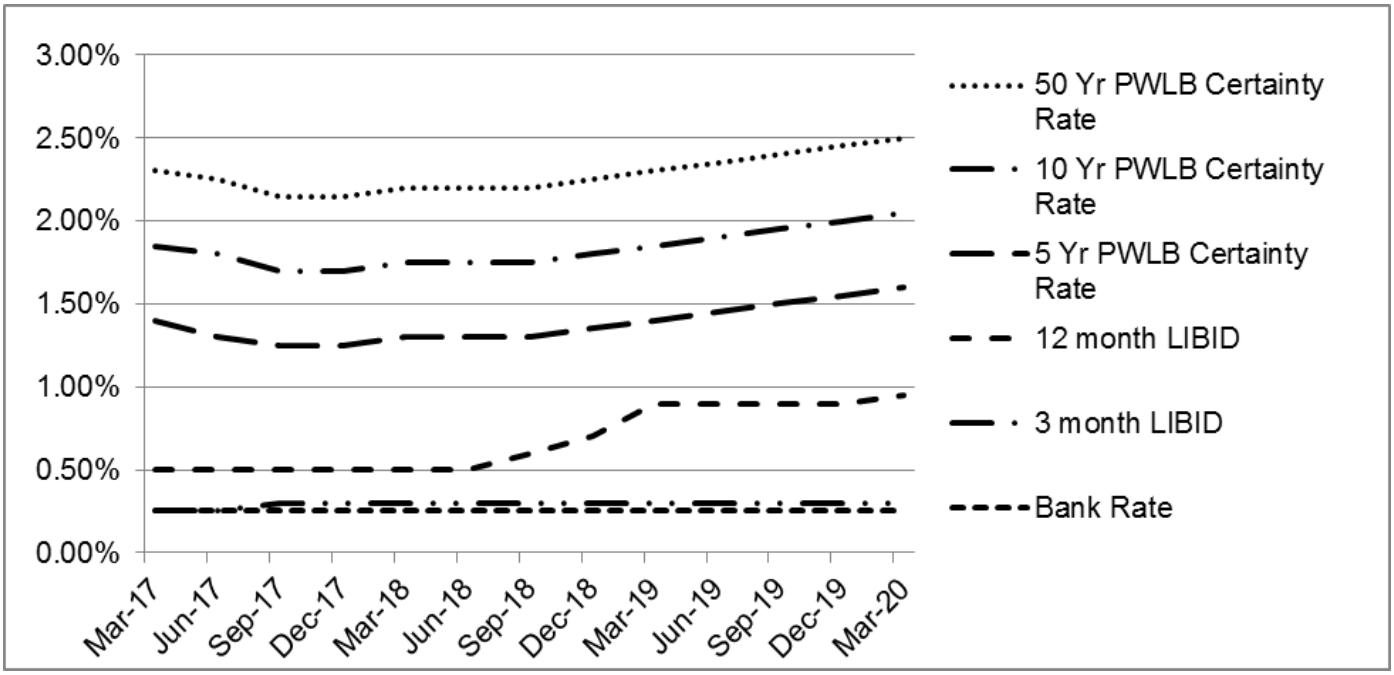
Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. Therefore the credit risk for the Council associated with making unsecured bank deposits is higher, relative to the risk of other investment options.

2.2 Projected Interest Rates

Arlingclose, the Authority's treasury advisor, forecast that the UK Bank Rate will remain at 0.25% during 2017/18. A negative Bank Rate is thought to be unlikely, but cannot be entirely ruled out, while rising inflation and/or continued economic growth could result in an earlier than expected increase in rates.

Arlingclose's projections for gilt yields, that is the price paid by the Government for borrowing, and Public Works Loan Board (PWLB) borrowing rates, are for a fall when the Government triggers Article 50, and then a slow and limited increase over the next few years. Some short term volatility is to be expected.

Our latest forecast of interest rates is shown below.



The PWLB rates relate to potential long term borrowing, and the LIBID (London Interbank Bid Rate) to short term borrowing and investment.

This is a realistic view of potential rates, however it must be recognised that there is significant uncertainty and risks to both the upside and downside.

For the purpose of setting the budget for 2017/18, it has been assumed that:

- any new investments will be at low rates, averaging around 0.2%,
- short-term borrowing will be available at an average of around 0.5% and
- new long-term loans will be available, if required, at rates below 2.0%.

3. Current and Expected Treasury Portfolios

3.1 Current Portfolio

The Council's Treasury portfolio as at 31st December 2016 was as follows:

		Principal Amount £M	Interest Rate %
External Debt			
Debt directly managed by Blackburn with Darwen BC			
	Short Term borrowing - maturing in 2016/17	23.0	0.32%
	Short Term borrowing - maturing in 2017/18	16.0	0.44%
	PWLB maturing in 2016/17	0.8	2.65%
	PWLB maturing in 2017/18 or later	105.3	4.19%
	Market Debt maturing in 2017/18 or later	21.8	4.68%
Total directly managed by Blackburn with Darwen BC		**166.9**	**3.35%**
Other Long Term Liabilities	Debt managed by Lancashire County Council (LCC)	16.3	2.00%
	Debt re Private Finance Initiative (PFI) Arrangements	68.9	9.04%
Total Gross External Debt		**252.1**	**7.02%**
Investments	- maturing in 2016/17	16.4	0.23%
	- maturing in 2017/18 or later	-	
Total Investments		**16.4**	**0.23%**
Net Debt		**235.7**	**7.50%**
Net Debt excluding LCC/PFI Debt		***150.5***	**3.69%**

3.2 Expected Changes

No long-term borrowing is included in current cash flow forecasts across the remainder of 2016/17 and across 2017/18. A significant and growing level of short-term borrowing will be required as the gap between long-term debt and the Capital Financing Requirement continues to widen, and as Council resources are squeezed. Accordingly Net Debt, excluding LCC/PFI debt, is expected to increase to over £160 million by 31st March 2017 and to over £180 million by 31st March 2018.

The decision as to when to take external borrowing will depend upon the level of cash balances available and on current and forecast interest rates.

3.3 Budget Implications

Excluding PFI costs (which are offset by Government grant funding), the budget for debt interest payable in 2017/18 is £6.2 million (including the interest element of payments to LCC for debt managed on our behalf), reflecting:

(a) £5.8 million interest payable on the long-term debt portfolio of £142 million, at interest rates averaging circa 4%, and
(b) up to £0.4 million for short-term borrowing, at interest rates of around 0.5%.

The budget for investment income in 2017/18 is around £30,000, based on an average investment portfolio of circa £15 million, and interest rates averaging 0.2%.

If actual levels of investments and borrowing and/or actual interest rates differ from those forecast, performance against budget will be correspondingly different.

4. Investment Strategy

4.1 Context

On a day to day basis the Council can hold significant surplus funds representing income received in advance of expenditure requirements in addition to balances and reserves held. In the past 12 months, the Council's investment balance has ranged from around £7 million to £33 million, reflecting in particular the profiles of capital spending, grant funding, short term borrowing levels and long term debt repayments.

Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving low investment income.

4.2 Liquidity Management

The Council uses a cash flow model to determine the period for which funds may prudently be committed. The forecast is compiled on a prudent basis, to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Furthermore, a prudent level of funds is maintained in 'instant access' investments, to cover most likely eventualities. However to mitigate risk further, it is possible to borrow funds to cover short-term needs.

Long-term investments are made with due regard to the Council's medium-term cash flow forecast and financial plans.

4.3 Setting and Applying Investment Criteria

The Council's surplus cash is currently invested in short-term unsecured bank deposits, building society deposits and money market funds, along with fixed term deposits with other local authorities and the Debt Management Office (DMO). Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council will consider the options to diversify into more secure and/or higher yielding asset classes during 2017/18, particularly if it finds itself with funds to invest for longer.

In order to prioritise the security of investments, the Council sets limits on the amounts placed with different institutions and as to the duration of the investment. This is to maintain a diversified investment portfolio and to align amounts and durations of investments to the perceived risks associated with different counterparties.

When deteriorating financial market conditions give cause for concern, the Council will further restrict its investments to those institutions of higher credit worthiness and reduce the duration of its investments to seek to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government (via the DMO or invested in government treasury bills for example) or with other local authorities. This may reduce the level of investment income earned, but will protect the principal sum invested.

The Council uses credit ratings from all the three main rating agencies (Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC) to assess the risk of loss of investments. The lowest available credit rating will be used to determine credit quality. In order to make the limits straightforward to manage, limits are based on the Long-term ratings, as these ratings are those that address credit risk directly. Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade.

The ratings are obtained and monitored by the Council's Treasury Advisers, who will notify the Council of changes as they occur.

Credit ratings are a significant factor in assessing the creditworthiness of organisations however the Council understands that they are not perfect predictors of investment default. Full regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements, information on potential government support and other market information. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the specified criteria.

Investment limits are applied at the point at which new investments are made. They are set at cautious levels, allowing for the fact that circumstances may change while investments run their course.

It is proposed that if the investment criteria for a counterparty are no longer met, then:

- no new investments will be made,
- any existing investments that can be recalled at no cost will be recalled and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that it is actively reviewing an organisation's credit ratings with a view to downgrading, and as a result it is likely to fall below the specified minimum criteria, then no further investments other than into instant access accounts will be made until the outcome of the review is announced. This policy will not apply to negative outlooks which indicate a long-term direction of travel rather than an imminent change of rating.

Where a credit rating agency awards a different rating to a particular class of investment instrument as opposed to the credit rating of the counter-party as a whole, the Council will base its investment decisions on the instrument credit rating rather than the counterparty credit rating.

4.4 Investment Criteria for 2017/18

4.4.1 Approved Investment Counterparties

It is proposed to set the criteria at the same levels as were agreed for 2016/17.
On that basis, the Council may invest its surplus funds with any of the counterparty types in the table immediately below, subject to the cash and time limits shown AND any other investment limits also set out in successive paragraphs below.

Approved Investment Counterparties	Specified Investments		Non-specified Investments		
	Cash limit	Time limit	Cash limit	Time Limit > I year	Time Limit 1 year +
Banks and Building Societies – Secured Deposits					
long-term credit ratings no lower than AA (or equivalent)	£5M each	364 days	£5M each	-	6 years
long-term credit ratings no lower than AA- (or equivalent)	£4M each	364 days	£4M each	-	4 years
long-term credit ratings no lower than A- (or equivalent)	£3M each	364 days	£3M each	-	2 years
long-term credit ratings no lower than BBB+ (or equivalent)	-	-	£3M each	6 months	-
long-term credit ratings of BBB or BBB- (or equivalent)	-	-	£3M each	3 months	-
Banks and Building Societies – Unsecured Deposits					
long-term credit ratings no lower than AA (or equivalent)	£5M each	9 months	£3M each	-	3 years
long-term credit ratings no lower than AA- (or equivalent)	£4M each	6 months	£2M each	-	2 years
long-term credit ratings no lower than A- (or equivalent)	£3M each	4 months	£2M each	-	18 months
long-term credit ratings no lower than BBB+ (or equivalent)	-	-	£2M each	2 months	-
long-term credit ratings no lower than BBB (or equivalent)	-	-	£2M each	next day	-
The Council's **current account banker** - provided long term credit rating no lower than BBB- (or equivalent)	-	-	£3M	next day	-
Corporates or **Registered Providers** with long-term credit ratings no lower than A- (or equivalent)	£3M each	4 months	£2M each	-	18 months
Unrated institutions, such as some building societies	-	-	£1M each	4 months	-
Company Shares where no direct service benefit arising, for the prudent management of its financial affairs - e.g. LCFC	-	-	£100,000	n/a	
Pooled funds (incl. money market funds)					
long-term credit ratings no lower than A- (or equivalent)	£5M each	n/a	-	-	-
unrated or long-term credit ratings under A- (or equivalent)	-	-	£4M each	-	n/a
UK Government	no limit	364 days	no limit	-	50 years
Other Government with long-term-credit ratings no lower than A- (or equivalent)	£5M each	364 days	£3M each	-	5 years
UK Local Authorities* (irrespective of credit rating)	£5M each	364 days	£3M each	-	5 years
* as defined in the Local Government Act 2003					

The maximum that will be lent to any one organisation (other than the UK Government) will be £5 million, to limit the potential loss in the case of any single counterparty failure.

In accordance with the definitions set out in below (at 4.4.2 and 4.4.4)

(a) the combined **Secured and Unsecured Investments** made with any one counterparty will not exceed the cash limit for Secured Investments, and
(b) the combined value of the total of **Specified and Non-Specified Investments** with any one counterparty will not exceed the highest limit for any individual class of investment set out above

Investment in any bank that forms part of a group of banks under the same ownership will be subject to a Group Limit equal to the limit that would apply to the parent company.

4.4.2 Specified and Non-Specified Investments

Specified Investments are those expected to offer relatively high security and liquidity, and can be entered into with the minimum of formalities. The CLG Guidance defines Specified Investments as those:

- denominated in pounds sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
    - the UK Government,
    - a UK local authority, parish council or community council, or
    - a body or investment scheme of "high credit quality".

High Credit Quality

The definition of "high credit quality" is to be determined by each authority. This Council defines "high credit quality" organisations as those having a credit rating of A- or higher, if either domiciled in the UK ***or*** in foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds, "high credit quality" is defined as those having a credit rating of A- or higher.

Non-Specified Investments

Any investment not meeting the definition of a Specified Investment is classed as Non-Specified. They will only be made in the following categories

(a) shorter term investments in bodies and schemes with low or no credit ratings – these will be closely monitored by the Treasury Management Group (TMG), chaired by the Director of Finance and IT, and will follow advice given by the Council's Treasury Management Advisers

(b) long-term investments, i.e. those that are due to mature in 12 months or longer from the date of the arrangement (in higher rated counterparties)

(c) treasury investments defined as capital expenditure by legislation, such as company shares, where there is a potential for a beneficial treasury impact.

The Council does not intend to make any investments in foreign currencies.

Overall limits also apply on Non-specified Investments, as shown the table below.

Non-Specified Investments - Overall Limits	Cash limit
Total long-term investments	£7 M
Total investments without credit ratings or rated below A- Building Societies or Banks (subject to additional overview) Council's current account bank (in addition to the above) Pooled Funds and Money Market Funds	 £7 M £3 M £15 M
Total non-specified investments	£30 M

4.4.3 Investment Limits for Foreign Countries

No country limit will apply to investments in the UK, irrespective of the UK's sovereign credit rating.

Investments in foreign countries will be limited to those that hold sovereign credit ratings of AA + or better from all three major credit rating agencies, and to a maximum of £5 million per foreign country.

The restriction on foreign investment will not apply to investment in pooled funds which may be domiciled overseas. Sovereign credit rating criteria and foreign country limits will also not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank).

4.4.4 Secured and Unsecured Deposits and Current Account Bankers

Unsecured Deposits: These include accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Unsecured investment with banks rated BBB or BBB- are restricted to overnight deposits with the Council's Current Account bank. A high level of monitoring of the credit-worthiness of the Current Account banker will be maintained if its ratings fall this low and this option will not be taken up if there are serious concerns.

The Council is still reviewing its banking arrangements, with consideration being given as to how best to procure banking services going forward.

Secured Deposits: These include covered bonds and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits potential losses in the unlikely event of insolvency and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits.

4.4.5 Investment in Other Government, Corporate and Registered Providers

Other Government – this covers loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in and there is an insignificant risk of insolvency.

Equivalent investments with the UK Government may be made in unlimited amounts.

Corporates – this covers loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent.

Registered Providers – this covers loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and as providers of public services, they retain a high likelihood of receiving government support if needed.

4.4.6 Unrated Institutions

To allow the option to invest in the Municipal Bonds Agency, and to continue to retain the option to invest in unrated building societies, it is proposed to set the limits as set out in 4.4.1 above. Both would count as Non-Specified Investments.

Equally, should Money Market Funds and other Pooled Funds (see below) be, or become unrated, investment in them would cease to qualify as Specified, and the lower limits as a Non-Specified Investment would apply.

4.4.7 Pooled Funds (including Money Market Funds)

Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts.

There remain proposals under development which may change how money market funds operate, and whether they will have credit ratings. In the event that such proposals are enacted, the Council will fully review the risk position regarding future use of money market funds with its Treasury Adviser and act accordingly.

Pooled Fund investments are investments in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee.

Pooled funds whose value changes with market prices, and/or have a notice period, will only be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

4.5 Strategy for 2017/18

Cash flow surpluses can be considered as falling into three categories -

(a) **Short-term funds** that are required to meet cash flows occurring in the next month or so, and for which the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although should not be ignored. Instant access AAA-rated money market funds and bank deposit accounts will be the main methods used to manage short-term cash.

(b) **Medium-term funds** that may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks.

(c) **Long-term funds** that are not required to meet any liquidity need and can be invested with a greater emphasis on achieving higher returns. Security remains fundamental however, as any losses from defaults will impact on the total return. Liquidity is of lesser concern, although it should still be possible to sell investments with due notice if large cash commitments arise unexpectedly. This is where a wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds could be used to diversify the portfolio.

The overall Investment Strategy therefore, will be to prioritise security of funds and maintain a mix of short-term (largely instant access) and medium-term investments to generate investment income as market conditions permit. There are currently no long-term investments by the Council. If there are sufficient funds at a future date, the Council will consider its options for optimising returns and making more long-term investments.

With short-term interest rates still significantly lower than long-term rates, due consideration will also be given to continuing to use surplus funds to defer making long-term borrowing or even make early repayments of long-term borrowing. In addition to the savings on the interest rate differential, this strategy will also reduce the Council's exposure to credit risk and interest rate risk.

The counterparty limits set out in section 4.4.1 above, allow for a wider range of investment opportunities to be taken up than have been used by the Council in the past. This will provide an opportunity to increase the diversification of the overall portfolio and in some instances, increase the security of investments made. The take up of any new investment opportunities will be closely managed by TMG, following advice given by the Council's Treasury Management Advisers.

5 Borrowing Strategy

5.1 Context and Forecast Needs

Excluding debt managed by LCC and that related to PFI arrangements, the Council currently holds circa. £128 million of long-term loans as part of its strategy for funding previous and current years' capital programmes.

Excluding LCC/PFI elements, the Council's Capital Financing Requirement (CFR, or underlying need to borrow for capital purposes) is projected to increase from £211 million at 31st March 2016 to £222 million at 31st March 2017, and thereafter to fall to

around £221 million by 31st March 2018, as capital financed from supported borrowing is exceeded by the MRP made in year.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. The authority expects to comply with this recommendation.

The potential new (i.e. additional) **long-term** borrowing requirement for 2017/18 is:

	£M
Under–borrowed against CFR to end of 15/16	76.1
Plus Projected increase in CFR in 16/17 and 17/18	6.4
Less Long Term Borrowing to date in 16/17	0.0
Plus Profiled debt repayments 16/17 and 17/18	10.1
TOTAL	**92.6**

However the Authority has been able to maintain both long-term borrowing and investment below their underlying level, generating interest savings, and it expects to be able to continue that pattern over the next year.

It is likely therefore that the level of short-term borrowing, already significantly up on previous years, will continue to grow, as taking repeated short-term loans is likely to be cheaper than taking out long-term debt.

In addition, the Council may also borrow for short periods of time to cover unexpected cash flow shortages.

5.2 Sources of Borrowing

The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments above (including UK local authorities)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

The Council has previously raised much of its long-term borrowing from the PWLB however other sources of finance may be available, and will also be considered.

The Authority still has £16.5 M of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £11.5 M of these LOBOS have options during 2016/17, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority may take the option to repay LOBO loans at no cost if it has the opportunity to do so. It is not currently expected that the Council will take any further LOBO loans - however in order to allow for some flexibility, the Council will limit its total exposure to LOBO loans to £25 M.

As an alternative to borrowing by taking loans, the Council may also finance capital expenditure and incur long-term liabilities by means of:

- leases
- Private Finance Initiative

The UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. Blackburn with Darwen BC was one of a number of local authorities investing in the Agency to help establish it. It plans to issue bonds on the capital markets and lend the proceeds to local authorities.

This will be a more complicated source of finance than the PWLB for two reasons:

- borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans and
- there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

Any decision to borrow from the Agency will be subject to a separate report to Executive Board.

5.3 Strategy for 2017/18

The Authority's main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans, should the Authority's long-term plans change, is a secondary objective.

Given the significant cuts to public expenditure, and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources or to borrow short-term loans instead. By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

The benefits of internal and short-term borrowing will be monitored regularly against the risk of incurring long term costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. The Council's Treasury Advisers will be used to help assess the 'cost of carry' of borrowing, to help determine whether the Authority takes on any long-term fixed rate borrowing in 2017/18. This could involve accepting additional costs in the short-term with a view to keeping future interest costs low.

Alternatively, the Authority may arrange forward starting loans during 2017/18, where the interest rate is fixed in advance but the cash is received in later years. This would give certainty of cost without suffering a cost of carry in the intervening period.

In addition, the Authority may take out short-term loans to cover cash flow shortages.

Debt Rescheduling

The Public Works Loan Board allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some higher rate loans with new loans at lower interest rates, or repay loans without replacement, where this is expected to lead to an overall saving or reduce risk.

6 Use of Derivatives

6.1 Derivatives

A derivative is a financial instrument whose value is derived from changes in the value of an asset or an index. Local authorities (including this Council) have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. deals agreed for future dates) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans).

Section 1 of the Localism Act 2011 included a general power of competence that removes the uncertain legal position over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall Treasury Risk Management Strategy.

Derivative Counterparties

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

7 Treasury Management Indicators

The Council is asked to approve the following Treasury Management Indicators:

Adoption of CIPFA Treasury Management Code of Practice

The Council adopted the 2011 edition of the CIPFA Treasury Management Code of Practice at its March 2012 meeting.

Gross Debt and the CFR

This indicator is set to ensure that the Council's external debt does not, except in the short term, exceed the accumulated Capital Financing Requirement across 2017/18, 2018/19, and 2019/20. It is not anticipated that this will be the case.

	2017/18 £M	2018/19 £M	2019/20 £M
CFR relating to Blackburn with Darwen Borough Council capital programme	221.3	217.1	212.9
CFR relating to debt managed by LCC	16.0	15.7	15.3
CFR relating to Other Long Term Liabilities re assets acquired through PFI projects	69.8	69.7	69.5
Total Capital Financing Requirement	**307.1**	**302.4**	**297.7**

£M	Current Gross Debt (31 December 2016)
166.9	managed by Blackburn with Darwen BC
16.3	managed by LCC
68.9	related to PFI
252.1	**Current Gross Debt**

Interest Rate Exposures

This indicator is set to control the Council's exposure to interest rate risk. It is again set with regard to the debt directly managed by the Council (excluding LCC and PFI debt).

The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be:

	2017/18 £M	2018/19 £M	2019/20 £M
Upper limit on **fixed** interest rate exposures	220.2	216.2	212.2
Upper limit on **variable** interest rate exposures	54.2	58.3	57.3

The proposed Upper Limit on Variable Borrowing has been set on a higher basis than in previous years, because of the increased use of short term, variable rate borrowing as part of the Treasury Strategy. There is a resultant greater risk of increased interest costs for the Council in the event of a increase in variable interest rates.

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk - i.e. to prevent too much debt maturing at any one time, with a risk the Council will have to refinance at the rates then prevailing. The limits for up to 24 months have been relaxed in this year's strategy to allow for a higher level of short term borrowing.

The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	35%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	30%	0%
10 years and above	95%	25%

This indicator applies to the financial years 2017/18, 2018/19, and 2019/20.

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. Where there is a prospect that a LOBO may be called, this has been reflected in setting these limits.

Principal Sums Invested for Periods Longer than 364 Days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2017/18 £M	2018/19 £M	2019/20 £M
Limit on principal invested beyond year end	7.0	5.0	3.0

The Indicators above are "standard" Treasury Management Indicators that are generally adopted by local authorities, in line with individual circumstances. These indicators have not directly addressed the key treasury priorities of Security and Liquidity, though these issues are already closely tracked throughout the year. However, working in conjunction with the Council's Treasury Advisers, options for the formal monitoring of performance in regard to these priorities remain under consideration.

8 Other Matters

CLG Investment Guidance also requires the Council to approve the following matters each year as part of the investment strategy:

8.1 Investment Consultants

Arlingclose Ltd are currently acting as the Council's Treasury Management Advisers and provide advice and information on the Council's investment and borrowing activities, although responsibility for final decision making remains with the Council and its officers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of this service is controlled by an annual review.

8.2 Investment Training

The training needs of those staff involved in the Treasury Management function within the Finance Team are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by our Treasury Advisers and CIPFA.

8.3 Investment of Money Borrowed in Advance of Need

The Council may on occasion borrow in advance of spending need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the Authorised Limit for External Debt of £322.8 million. The maximum period between borrowing and expenditure is expected to be two years, although the Council does not link particular loans with particular items of expenditure.

9 Other Options Considered

The CLG Investment Guidance and the CIPFA Code of Practice do not prescribe any particular treasury management strategy for local authorities to adopt.

Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Reduced risk of losses from credit related defaults
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

The Director of Finance and IT, having consulted with the Executive Member for Resources, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness.

Appendix 2

PROPOSED PRUDENTIAL INDICATORS

1. Introduction

CIPFA, the Chartered Institute of Finance and Accountancy, issued a fully revised edition in 2011 of the *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code), which underpins the system of capital finance.

Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services. The Prudential Code has been developed as a professional code of practice to support local authorities in taking these decisions. The Council is required by Regulation to have regard to the Prudential Code when carrying out its duties under Part 1 of the Local Government Act 2003.

2. Objectives

The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to provide a framework that will ensure that the capital investment plans of the Council are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. In exceptional circumstances, the Prudential Code should provide a framework which will demonstrate that there is a danger of not ensuring the above, so that the Council can take timely remedial action.

The prudential indicators required by the Prudential Code are designed to support and record local decision making in a manner that is publicly accountable. They are not designed to be comparative performance indicators, and should be considered in parallel with the treasury management indicators required by the CIPFA *Code of Practice on Treasury Management in the Public Services*.

3. Prudential Indicators for 2017/18

Estimates of Total Capital Expenditure to be Incurred

	2017/18 £M	2018/19 £M	2019/20 £M
Blackburn with Darwen Borough Council Capital Programme	21.2	14.0	13.4
Impact on Other Long Term Liabilities of assets acquired through PFI projects	0	0	0
Prudential Indicator for Total Capital Expenditure to be Incurred	**21.2**	**14.0**	**13.4**

Total capital spend in later years may be higher than currently forecast – however only spend funded from borrowing will impact on the Council's CFR.

Estimates of future Capital Financing Requirement

The Council must make reasonable estimates of the "total Capital Financing Requirement" – that is an estimate of the debt outstanding in respect of capital

expenditure, including Lancashire County Council (LCC) debt and that relating to the recognition of assets acquired under PFI projects, at the end of each of the next three financial years

	2017/18 £M	2018/19 £M	2019/20 £M
CFR relating to Blackburn with Darwen Borough Council capital programme	221.3	217.1	212.9
CFR relating to debt managed by LCC	16.0	15.7	15.3
CFR relating to Other Long Term Liabilities re assets acquired through PFI projects	69.8	69.7	69.5
Total Capital Financing Requirement	**307.1**	**302.4**	**297.7**

The LCC element relates to debt still managed by the County Council in respect of services transferred when Blackburn with Darwen became a Unitary Authority. The Other Long Term Liabilities in relation to PFI schemes are in respect of schools built under the Building Schools for the Future programme.

The authority's total debt over the period is projected to be lower than its highest forecast CFR.

Estimates of the Incremental Impact of Capital Investment Decisions on the Council Tax

The Council has to forecast the impact of the proposed Capital Investment decisions on Council Tax. The relevant cost of the 2017-18 capital programme proposals is:-

	2017/18 £	2018/19 £	2019/20 £
Capital financing costs	0.00	0.00	0.00
Impact on revenue running costs	0.00	0.00	0.00
Prudential Indicator for impact of investment decisions on Council Tax	**0.00**	**0.00**	**0.00**

This reflects the fact that no **new** unsupported borrowing proposals (and associated revenue running costs) are included in the new capital programme.

Estimates of Ratio of Financing Costs to Net Revenue Stream

The Council must estimate the proportion of the revenue budget taken up in financing capital expenditure.

The Net Revenue Stream is the sum of Council Tax, Business Rates and Non-Ring Fenced Central Government funding and represents the total available revenue funding which is under local control.

	2017/18 £M	2018/19 £M	2019/20 £M
Net Revenue Stream	125.9	125.7	126.9

The Indicator below is calculated on the basis that all of the Capital Programme, including Contingent elements, is delivered.

	2017/18	2018/19	2019/20
Main Programme capital financing costs as a proportion of Net Revenue Stream	14.73 %	14.98 %	15.05 %
BSF PFI capital financing costs as a proportion of Net Revenue Stream	5.20 %	5.14 %	5.10 %
Prudential Indicator for ratio of financing costs to Net Revenue Stream	**19.94 %**	**20.12 %**	**20.15 %**

The Council's capital financing costs in respect of BSF PFI schemes – both MRP and financing charges (interest elements) – are included, but this cost is largely covered by central government grant and does not put a pressure on Council resources.

It remains the case that a significant proportion of the net revenue budget is taken up in supporting the Main Programme part of the Capital Programme, but this is at a lower level than previous years' indicators as a result of the changes made to the Council's MRP Policy.

External Debt Prudential Indicators

The Council must set prudential limits for its **total** external debt, gross of investments, separately identifying borrowing from other long-term liabilities (i.e. Lancashire County Council debt and PFI assets completed). These limits are based mainly on the projected CFR, with an extra allowance for other short term borrowing needs. If the Council takes any borrowing from the PWLB, it is asked to confirm that it is operating within the limits it has set.

As well as setting an Authorised Limit for External Debt, the Council must also set an Operational Boundary for External Debt, inside the Authorised Limit, that the Council will look to operate within (though may *temporarily* exceed).

	Operational boundary for borrowing	Long Term Liabilities (LCC Debt & PFI Projects)	Operational Boundary for External Debt
	£M	£M	£M
2017-18	227.0	85.8	312.8
2018-19	222.8	85.3	308.1
2019-20	218.6	84.8	303.4
	Authorised limit for borrowing	**Long Term Liabilities (LCC Debt & PFI Projects)**	**Authorised Limit for External Debt**
	£M	**£M**	**£M**
2017-18	237.0	85.8	322.8
2018-19	232.8	85.3	318.1
2019-20	228.6	84.8	313.4

Appendix 3

MINIMUM REVENUE PROVISION GUIDANCE AND PROPOSED POLICY

1. Introduction

Local authorities are normally required each year to set aside some of their revenues as provision for debt repayment. Previously there were detailed rules setting out how to calculate such a Minimum Revenue Provision (MRP) but now, under Statutory Instrument 2008 no.414, it stipulates that:

"A local authority shall determine for the current financial year an amount of minimum revenue provision that it considers to be prudent."

There is not a specific definition of "prudent" provision however the Government issued MRP Guidance, making recommendations to authorities on the interpretation of that term. Authorities are legally obliged to "have regard" to any such guidance. A summary of the options under the Guidance is set out in Section 2, below.

Authorities are required to prepare an annual statement of their policy on their MRP Policy for submission to their full Council. This mirrors the existing requirements to report to the Council on the Prudential Borrowing Limit and Investment Policy. The aim is to give elected Members the opportunity to scrutinise the proposed use of the additional freedoms conferred under the new arrangements.

2. Guidance on Options for Prudent Provision

The Guidance offers four main options, set out in outline below, under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

1. Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.
2. It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, having had regard to the guidance.

Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the CFR on a reducing balance method, with some technical adjustments. The CFR is the measure of an authority's outstanding debt liability as depicted by their balance sheet.

This historic approach may be used for all capital expenditure incurred before 2007/08, and for new capital expenditure up to the amount which was deemed to be supported under the Government's financial settlement.

Option 2: Capital Financing Requirement Method

This is a variation on Option 1, based upon a charge of 4% of the aggregate CFR without the various technical adjustments under Option 1.

Option 3: Asset Life Method

This method may be applied to the debt arising from new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g. freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

a. equal instalment method – equal annual instalments
b. annuity method – annual payments gradually increase during the life of the asset

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e. this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

3. Proposed MRP Policy

The following MRP Policy is proposed, acting under amended Guidance issued by the Government in February 2008.

Blackburn with Darwen BC Annual MRP Policy Statement for 2017/18

The Council implemented the new Minimum Revenue Provision (MRP) Guidance in 2007/08 and has, since then, assessed the MRP it will make in accordance with the main recommendations contained within the guidance issued by the Secretary of state under section 21(1A) of the Local Government Act 2003.

At Policy Council in January 2017, the Council made certain changes to its MRP Policy effective from 2016/17. It is proposed to continue on that basis, so that the Policy for 2017/18 is as follows:

(a) *For capital expenditure financed from debt arising up to 2007/08 and all new Government-supported borrowing arising from 2007/08 and thereafter* - to use the Asset Life Method, and spread the cost outstanding at the end of 2014/15 evenly over 50 years (from 2015/16 through to 2064/65)

(b) *For capital expenditure that is self-financed from debt arising in 2007/08 and thereafter* - to use the Asset Life Method, but to use the annuity variant based on the average Public Works Loan Board (PWLB) annuity rates prevailing in the year

of the expenditure (rather than the previous method of charging MRP on a straight line basis over the estimated life of the asset).

(c) *For finance leases and 'on-balance sheet' Private Finance Initiative (PFI) contracts* - to use the annuity variant of the Asset Life Method but use the annuity rates built into the financing arrangements (rather than the previous method of matching the MRP to the value of the rent/charge that is charged each year to write down the balance sheet liability of the respective finance lease or PFI contract).

(d) *For historic debt that was entered into prior to unitary authority status and is managed by Lancashire County Council (LCC)* - to spread the cost on a straight line basis over 49 years, in alignment with the profile for historic supported borrowing

(e) *In those cases where asset lives cannot be readily determined* - to use a default period of 20 or 25 years in line with Government Guidance. However the Council may make its own determination in exceptional circumstances, if the recommendation of the Guidance would not be appropriate.

(f) *Where loans are made to other bodies for their capital expenditure* – to charge no MRP. However, the capital receipts generated by the repayments on those loans will be put aside to repay debt instead.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives

Therefore, in the determination of MRP, the Council will be both:

(a) **prudent** - working within the principle that debt be repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits, and

(b) **practical** - making detailed determinations where the impact of the calculation will be material, but allowing a more general approach if that would be reasonable.

REPORT OF:	**DIRECTOR OF FINANCE AND IT**
TO:	**FINANCE COUNCIL**
DATE:	**27th FEBRUARY 2017**

SUBJECT: The Robustness of the 2017/18 Budget and the Recommended Level of Reserves

1. PURPOSE OF THE REPORT

Section 25 of the Local Government Act 2003 places a statutory requirement on the Council's Chief Financial Officer to report on:

a) the robustness of the estimates within the overall budget, and
b) the adequacy of the proposed level of financial reserves

In setting the Budget for 2017/18, Council is required to have regard to this report when making its budget decisions.

2. RECOMMENDATIONS

An overall assessment of the current budget and the assumptions on which this is based, as well as future budget proposals, savings plans and activity forecasts, has identified that whilst there are risks, the overall budget provisions are considered sufficient to meet the Council's legal responsibilities and obligations.

A review of risks, mitigations and contingencies has also been undertaken alongside the review of reserves and provisions.

Finance Council is recommended to consider the assessment by the Director of Finance and IT of;

- the robustness of the Revenue Budget and Capital Programme for 2017/18 (as outlined in the report of the Executive Member for Resources) and
- the adequacy and recommended level of proposed financial reserves (detailed in **Section 5.2** below).

3. RATIONALE

The information provided below is to assist Members in their review of the overall Revenue Budget and Capital Programme and to provide assurance to them that financial advice has been provided throughout the budget setting process.

4. POLICY IMPLICATIONS

The Budget Strategy reflects the corporate priorities of the Council and policy requirements at both a corporate and a departmental level.

5. FINANCIAL IMPLICATIONS

5.1 Robustness of the 2017/18 Budget

5.1.1. Budget Strategy

The Council's overall framework for its medium term budget is contained within the Medium Term Financial Strategy (MTFS). Although the strategy would normally extend over the 3 years beyond the end of the budget year, i.e. to 2020/21, given that Central Government is currently developing mechanisms to significantly change the way Councils are funded from 2020 onwards, the MTFS focuses on the period to 2019/20 until more clarity is provided on the changes over the next 12 months.

The strategy provides for Council-wide involvement with an integrated approach to the preparation of soundly based capital and revenue plans and the associated strategies of managing risk and internal control. Together this ensures effective financial management and governance.

5.1.2 Budget and Tax Setting Process

The annual budget preparation and tax setting process involves the development of robust medium term revenue forecasts and capital plans. In any financial year, the level of Government funding, additional cost pressures (including inflation, service specific pressures and areas of investment and growth), together with an increasing demand for services, necessitates a re-appraisal of service delivery and identification of efficiency savings to address any funding shortfall in order to deliver a balanced budget. The Budget Strategy and proposals submitted have been formulated to reflect these issues.

Throughout the formulation of the Budget Strategy, Portfolio Executive Members have been advised by the Chief Executive, the Deputy Chief Executive and Directors in relation to the operational requirements around policy and legislative initiatives. Likewise, the Director of Finance and IT and senior finance representatives have advised on financial impact and provided comprehensive input to demonstrate financial viability throughout the process. In doing so, and to ensure the robustness of the budget and the budget setting process, we have been mindful of;

- Availability of reliable information;
  - we have sought to ensure that the budget is based on the most up-to-date and realistic assumptions (for example government and Bank of England forecasts for pay and price increases and interest rate movements)
  - assumptions relating to future levels of government funding are based on the Local Government Finance Settlement and predicated on the most recent government announcements.

- Council's guidance and strategy;
  - the Council's Constitution which contains a clear Budget and Policy framework

- the Council's Budget Strategy and approach to budget setting which is clearly defined and communicated
- consultation with residents, partners and businesses within the Borough and targeted engagement with service users

- Corporate approach and integration;
  - service departments have identified budget pressures and risks at an early stage in the process and have clearly demonstrated realistic service plans linked to the budget resource available
  - the system of cash limited budgets for each Portfolio provides a transparent and accountable arrangement to budget setting; the allocated cash limit takes account of service specific cost pressures and inflation and also includes an apportionment of corporate cost pressures from which each Portfolio has had to formulate a strategy to deliver savings and ensure a balanced budget.
  - The Council's 'early action' approach to meeting both the immediate and forecast financial challenges has been effective in providing a level of resilience to address the Central Government funding reductions over the period to 2019/20. All of the savings relating to the 3 year savings programme of £26.0m approved by Council Forum in September 2014, the £3.6m in-year budget savings programme of 2016/17, together with the £15.0m savings programme developed during 2016/17 and approved by Policy Council on 1st December 2016, have been reflected in the budget.

- Flexibility;
  - mechanisms to review options for service delivery are linked into the budget process
  - flexibility to free up resources to deliver service improvement and to deliver the Council's priorities
  - flexibility in budget management as included within the Council's Constitution

5.1.3 Capital Programme

Affordability of capital expenditure plans is important in determining the overall robustness of the budget and adequacy of reserves to deal with potential variations.

The proposed Capital Programme for 2017 to 2020 of £48.6m is included within the report from the Executive Member for Resources. This predominantly comprises of existing commitments including investment:

- in our local transport plan
- in the highways network recovery programme and
- in aids and adaptations through provision of disabled facilities grants

Allocations are also included;

- for our successful Growth Deal 3 bid which will open up the Pennine gateways around the borough to facilitate housing and business growth
- to support continued investment in IT services to underpin our 'digital first' approach to delivering efficiencies and in turn, cash savings. Before projects are allocated funding from the reserve however, they will be subject to a rigorous business case approval process and detailed Member reports will be produced in line with financial procedures as required.
- to support the accommodation review which again will drive efficiencies and savings through rationalisation and a more cost effective use of space

These schemes will require strong project management and effective monitoring to ensure they are achieved on time and within budget. Failure to deliver against budget on such large schemes could lead to potential overspends which could impact on the overall future capital programme as additional costs could put pressure on the funding available for delivery of other schemes within the programme. To mitigate this risk, sound systems of internal control are in place with project boards established to provide the necessary governance structure, ensuring appropriate and timely reporting mechanisms.

5.1.4 In year financial Monitoring Process

The Council continuously seeks to strengthen its financial processes and controls. This approach, combined with existing effective arrangements, will provide a strong foundation enabling Members and Officers to continue to deliver the demanding targets and plans set within the Budget Strategy and the challenges identified for future years. In any budget however there are likely to be risks. In year financial monitoring processes are in place to mitigate these;

- Overall budget monitoring takes place throughout the year at both Portfolio and Executive Board level to identify potential areas of pressure and to develop and implement corrective action. This in itself provides a strong control environment and is commensurate with sound corporate governance. Progress against efficiency targets is also monitored and reported to Executive Members.

- The Chief Executive and Deputy Chief Executive meet at least once a month with the Director of Finance and IT, and senior finance staff, to review both the Councils' overall financial position and the progress made in delivering the savings programme, as well as considering the impact of emerging changes in the local government financial landscape

- The Policy & Corporate Resources Overview & Scrutiny Committee meets regularly with the Executive Member for Resources, and with the Director of Finance and IT and Director of HR, Legal and Corporate Services, to review the Council's budget position and progress made against the agreed savings programme.

- The Workforce Management Group, chaired by the Director of HR, Legal and Corporate Services, with senior finance and Trades Union representation, meets fortnightly and reports to the Deputy Chief Executive. The group oversees all workforce related restructuring and downsizing activity.

- The financial model that underpins the MTFS is subject to continuous review throughout the year to enhance forward planning, policy prioritisation, resource allocation and assess opportunities to invest in achieving future efficiency savings. The assumptions, variables and information within the model are regularly updated to ascertain the impact of known changes (e.g. legislative changes such as the National Living Wage), potential changes (such as adjustments to government funding and precept levels), and also for the refinement of variables (such as inflation, interest rates and employers pension rates) in light of emerging information.

- The Council adopts a risk based approach to financial management which provides added value to the governance process and identifies risks associated with both the revenue and capital programme. The provision of sufficient levels of Unallocated Reserves, and for specific contingencies within the budget, mitigates against the

financial risks from unforeseen financial issues so that these can be addressed in a responsive and controlled manner. As part of its approach to risk management the Council also makes provision for Earmarked Reserves, i.e. funding reserved to address specific future needs.

5.1.5 Risk

Ultimately the robustness of the budget is dependent on the strength of the arrangements in place to deliver the component parts and to manage the associated risks of each of these.

It must be recognised that given the significant reduction in resources, and the resulting reconfiguration of the organisation and its services, the Council faces significant risk which impact upon the financial estimates included in this budget.

These risks include:

- potential increase in demand for services from residents, particularly social care services for the most vulnerable, which may be exacerbated by reductions in public sector expenditure in other areas such as the NHS and as a result of Welfare Reform
- the reaction by residents to changes to services
- the ability to raise revenue from taxes, fees and charges
- changes in statutory and legislative requirements, including employment law
- changes by government in funding formula
- contractual obligations
- the challenging timescales in which to deliver the reductions
- potential loss of skilled and experienced staff
- the development of free schools and academies and further education reforms

The approaches outlined in this paper in relation to risk management, scrutiny, continuous monitoring of both the current and forecast financial position, as well as regular modelling through the MTFS of the financial impact of changes in the external environment, should mitigate these risks; by identifying the risks and providing an assessment of exposure, magnitude and potential financial impact, plans can be developed and implemented to address them. Therefore this Budget Strategy, whilst undoubtedly challenging, is achievable with strong project and risk management and with effective financial control.

5.2 Adequacy of Proposed Financial Reserves

Reserves are an essential part of good financial management; they help the Council to cope with unpredictable financial pressures, help to smooth the impact of known spending requirements over time and help to fund any in-year overspends. As funding levels have continued to reduce, local authorities have had to utilise reserves to cover any shortfalls in year to bridge the gap whilst cost and service reductions are fully implemented to address the imbalance; this has also been the case in Blackburn with Darwen.

There is no set formula for deciding what level of reserves is appropriate and every Council is free to determine the level they hold; holding a low level of reserves offers little resilience to financial shocks and sustained financial challenges however if

reserves are too high, there may be opportunity costs involved resulting in a lack of investment in services that could provide better outcomes for residents, and/or increased savings, and/or revenue generation for the Council.

As such the level, purpose and planned use of reserves are important factors to consider in developing the MTFS and annual budget.

5.2.1 Unallocated Reserve

A General or Unallocated Reserve has been established within the budget to provide a contingency to cushion the impact of unexpected events or emergencies and to meet potential liabilities, such as contingent liability claims.

The calculation to support the 2017/18 budget is detailed at **Appendix A**. This is based on a framework that has been developed to identify areas of risk, an estimate of their financial value and an assessed level of the risk coming to fruition. This process produces a value from which a risk assessed, minimum level of Unallocated Reserves can be determined. The calculation also allows for the current pressures on the Council's finances e.g. pressures in demand for social care services.

The sensitivity and risk analysis identifies a General Reserve requirement of £4.0m to provide financial resilience in the event of unexpected spending pressures.

5.2.2 Earmarked Reserves and Provisions

Earmarked Reserves are established to meet known or expected future liabilities where it is difficult to be specific about the exact financial amount of liability.

There are several categories of Earmarked reserves that the Council holds;

- Sums set aside for major schemes such as capital developments or to fund major reorganisations
- Insurance reserves
- Reserves retained for service department use
- School balances

The current forecast for Earmarked reserves at 31st March 2017 comprises;

£13.4m - total reserves of Council Use

£18.1m – Other reserves (including Schools)

During the course of 2017/18 it is anticipated that a net £1.6M will be transferred to Earmarked Reserves to fund known commitments. A full breakdown of the Earmarked Reserves is attached at **Appendix B**.

A review of the Earmarked Reserves held by the Council has also been undertaken to establish the purpose of the reserves and the likely timescale for their use.

6. LEGAL IMPLICATIONS

This report is a requirement under Section 25 of the Local Government Act 2003.

7. RESOURCE IMPLICATIONS

There are no resource implications as a direct consequence of this report

8. EQUALITY IMPLICATIONS

There are no equality implications as a direct consequence of this report

9. CONSULTATIONS

None applicable to this report

Contact Officer:	Louise Mattinson, Director of Finance and IT,
Date:	27th February 2017
Background Papers:	Budget Papers elsewhere on this agenda

GENERAL FUND UNALLOCATED RESERVES

General reserves are available to assist as working balances to help cushion the impact of uneven cash flows, and as a contingency against unexpected events or emergencies. They can also serve to provide short term funding in advance of funding allocations. The table below identifies a number of issues that pose risks against the budget. These figures have then been scaled back by a factor of 50% as it is unlikely that all these events would occur or indeed happen at the same time.

Risk Event	£ 000's
General budget risks • Demand pressures – significant parts of the Council's budget, particularly in Adults and Children's Social Care, are 'demand led' and can create significant demands for increased expenditure during the year • Overspend of budgets within service areas • National Living Wage – provisions made for increases in contracts for services, particularly in the care sector where many employees are currently paid at or close to the National Living Wage, will be insufficient to meet the increase in contract costs • Funding through the Revenue Support Grant will be insufficient to cover the additional costs of implementing the Care Act requirements • Inflation is underestimated or cannot be contained within existing budgets • Cost increases e.g. large scale increases in gas and electricity	3,000
Savings Programme The savings programme includes a number of saving proposals where implementation may be delayed or may not be achieved. Whilst the Council holds a Part Year Effect of Savings Reserve to mitigate the financial impact of such occurrence, and monitors and manages achievement of the programme through budget management at Director, Executive Member and Executive Board level, given the magnitude of the savings required, this remains a risk	1,250
Risk of reduced revenues from rents, fees and charges In addressing the reductions in funding, the Council has sought to maximise all available income streams to reduce the budget gap. Given the economic climate, and the risk that as schools convert to Academies they will not require support from the Council, income streams could be at risk.	500
Interest rates Although interest rates have been historically low for several years, the difficulties in the global economy expose the UK to potential, but unexpected, interest rate changes. As such there is a risk that in relation to borrowing, rates are understated and interest receivable estimates are overstated.	100
Emergencies The Council is required to maintain provision to meet the cost of emergencies that cannot be met from budgets or by insurance cover. Significant costs on emergencies are met by Central Government under the "Bellwin" scheme but these are only triggered once the Council's expenditure has exceeded a pre-determined limit (0.1% of the revenue budget). Only 85% of the costs above this limit are then covered.	250

Risk Event	£ 000's
Contingent liabilities The Council does not maintain a 'general' contingency within its revenue budget but relies on in-year savings and balances to meet any unexpected demands. Unexpected demands, particularly those that result from a legal decision, a change in government legislation or a determination in government legislation, could present a risk to the Council's finances.	1,500
Welfare Reform and Universal Credit The impact of the changes on the Council's financial position are difficult to predict and therefore as each of the reforms and changes are rolled out, there is a risk of increase in the net cost of housing benefits, an increase in the cost of council tax support and an increase in demand for services from those hardest hit financially	500
Litigation Claims As the Council faces reductions in resources for future provision of services there is an increased risk of litigation, albeit that robust risk assessment procedures and sufficient insurance policies are in place.	400
Risk of business rates shortfall The risk of a reduction in collection rates due to the recent revaluation, to both in terms of outstanding and potential future rating appeals and due to the economic climate.	500
SUBTOTAL	**8,000**
Adjustment to reflect the unlikely probability that all of these events take place simultaneously (50% likelihood)	- 4,000
Recommended minimum level of Balances	**4,000**

	2017/18 £'000	2018/19 £'000	2019/20 £'000
Projected level of balances at start of each year	4974	4,974	4,974
Budget proposals – contributions from (-) or to (+) balances	0	0	0
Balances estimated at end of each year	4,974	4,974	4,974

APPENDIX B

EARMARKED RESERVES

The Council has a number of reserves which have been earmarked for specific purposes. These reserves are listed below, together with the purpose of the reserve and the amounts.

Name	Purpose	Balances estimated at 1 April 2017 £ 000's	Planned movements 2017/18 £ 000's	Balances estimated at 31 Mar 2018 £ 000's
Reserves held for discretionary use by the Council				
Specific project reserves	Revenue savings that have been earmarked for specific projects or purposes in future years	6,726	350	7,076
Disabled Facility Grants	To meet increased demand for DFGs	289	0	289
Collection Fund Deficit	To meet any future Collection Fund Deficit whether Council Tax or Business Rates	268	0	268
Highways Winter Maintenance	This reserve has been built up from budget underspends on winter maintenance and supplementary allocations to provide additional maintenance requirements in the event of severe winter weather conditions	121	0	121
Support for Future Redundancy Costs	This reserve is to support future remodelling of services	2,713	623	3,336
Part Year Effect of Future Savings Plans	This reserve is to support the delivery of future budget reductions	1,640	700	2,340
Review of Services Provided Through the Strategic Partnership	This reserve is to support the reviews of services previously provided through the multi-disciplinary strategic partnership	304	0	304
Reserves held for specified (non-discretionary) purposes				
Maintenance of Wainwright Bridge	This reserve is the result of a contribution from Network Rail as maintenance of the new Wainwright Bridge becomes the responsibility of the Council – the reserve will support the portfolio once ongoing maintenance liabilities start to arise	506	0	506
Sc 106 income (under the 1990 Town and Country Planning Act)	Developers' contributions to be applied to enhance or maintain infrastructure and facilities	249	(100)	149
Highways Claims	This reserve is required to support anticipated future highway claims in respect of 2013/14 and earlier years	261	0	261
Contingent liabilities – MMI scheme of arrangement	Following the liquidation of Municipal Mutual Insurance (MMI) in 1992 , the Council will be liable for a share of claim liabilities in the event of an insolvent run-off, which is increasingly more likely	250	0	250

Name	Purpose	Balances estimated at 1 April 2017 £ 000's	Planned movements 2017/18 £ 000's	Balances estimated at 31 Mar 2018 £ 000's
Arts Acquisition Fund	This fund was established so that new pieces of art can be purchased as and when they become available	13	0	13
Winifred Ferrier Bequest	The money was bequeathed to the Council to enable the purchase and exhibiting of items associated with the life of Kathleen Ferrier	20	0	20
TOTAL RESERVES FOR COUNCIL USE		**13,360**	**1,573**	**14,933**
Reserves held in respect of joint arrangements and charitable bodies				
Darwen Market Traders	Funds held by the Council on behalf of Darwen Market Traders' Association	2	0	2
Joint Building Control Account	Accumulated surpluses in relation to the Joint Building Control agreement	145	0	145
Turton Tower Charity	Funds held by the Council in its role as trustee for the charity	36	0	36
Local Safeguarding Children's Board Fund	This fund was established from specific contributions to be used to support the LSCB	180	0	180
Reserves held in relation to schools				
Dedicated Schools Grant - surplus	DSG received but not yet deployed to meet expenditure properly included in the Schools Budget	9,455	0	9,455
LMS Schools balances	Funds held by schools under a scheme of delegation	*8,305	0	*8,305
TOTAL OTHER RESERVES		**18,123**	**0**	**18,123**

* use of reserves to be determined through the Schools' Forum

REPORT OF:	**EXECUTIVE MEMBER RESOURCES, ON BEHALF OF THE LABOUR GROUP**
TO:	**FINANCE COUNCIL**
DATE:	**27th February 2017**

PORTFOLIOS AFFECTED: ALL

WARDS AFFECTED: ALL

SUBJECT: Revenue Budget 2017/18, Medium Term Financial Strategy and Capital Programme 2017-2020

1. PURPOSE

To recommend to Finance Council the Budget Strategy and proposals for the Revenue Budget 2017/18, together with the Medium Term Financial Strategy (MTFS) and Capital Programme for 2017-2020.

It must be noted however that at the time of issuing this report, we have still not received confirmation from Government of the final Finance Settlement for 2017/18 which has been delayed until 22nd February; although the final settlement figures are not expected to change, further update will be provided to the Finance Council meeting.

2. RECOMMENDATIONS

2.1 To approve the proposals for the Revenue Budget for the financial year 2017/18 as 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 3.0% to meet the costs of Adult Social Care

2.1.3 To note the individual portfolio cash limit budgets for 2017/18 as set out in Appendix C(i)

2.1.4 To note the budget savings programme, by portfolio, to be delivered for 2018/19 and 2019/20, as set out in Appendix C(ii)

2.1.5 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 2017

2.1.6 To approve the net transfer to Earmarked Reserves of £1.573m to facilitate delivery of the Budget Strategy as per **Appendix A** and **Appendix B** of the report

2.1.7 To delegate authority for the agreement of hourly rates and contract changes for social care providers for 2017/18, arising from the impact of the increase in the National Living Wage, to the Executive Member for Adult Social Care, in consultation with the Executive Member for Resources

2.2 To approve the proposals for the Capital Programme for the period 2017-2020 as outlined in **Appendix D** and **Section 8** of this report

2.3 To approve the draft Medium Term Financial Strategy 2017-2020, as per **Appendix E** of this report, and to approve the subsequent publishing of the final version

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 within the report from the Director of Finance & IT

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 2017/18 unless replaced or varied by the Council, as set out in **Appendix F**.

3. BACKGROUND

The Council, like most local authorities across the country, is experiencing an ongoing period of unprecedented financial pressure and challenge as a result of the Government's extended programme of austerity, combined with significant increases in demand for public services.

The balanced budget for 2016/17 and MTFS approved at Finance Council on 29th February 2016 was predicated on some very challenging assumptions including;

- Delivery of the balance of the £26.0m savings programme agreed in September 2014 (£10.2m)
- Delivery of a further 'in-year' savings programme of £3.6m in order to balance the budget in 2016/17
- Development of a £15.0m savings programme during 2016/17 to be fully delivered by 1st April 2018, including workforce and commercial strategy reviews
- An increase in Council Tax for the first time in 5 years by 1.99%, with further assumed increases of 1.99% in each of the following years through to 2019/20
- Introduction of the Adult Social Care Precept of 2% in each of the years through to 2019/20

As 2016/17 has progressed, further pressures have emerged that were not built into the MTFS, including;

- rising demand in Adult Social Care and Children's services, with increases in both the volumes of people using these services and in the complexity of their needs
- the impact of the increase in the National Living Wage on our social care providers which has ultimately increased the costs borne by the Council for which there has been no extra government funding.
- increases in pay and non-pay inflation and in the cost of employer pension contributions
- the impact of continuing Welfare, Education and NHS reforms

To address these pressures we have already had to use both earmarked and unallocated reserves in 2016/17, but as some of these additional costs are of a recurring nature, they require further support in 2017/18 and beyond and as such will need to be met from further savings.

As such, much progress has been made since the last Finance Council to develop, agree and implement a savings programme to close the budget gap to which all teams, departments and portfolios have contributed. This culminated in the £15.0m efficiency programme presented to, and approved by Council Forum on 1st December 2016.

Difficult decisions have had to be made;

- some services have been curtailed, and in some instances have had to cease,
- staff have been made redundant and
- contributions to partnership and contract working has had to be scaled back,

However, throughout the process, the Council's strategy in reflecting the Corporate Plan priorities has been grounded in the principles of;

- delivering, as far as is possible, the services that our residents need and want,
- providing help and support to those in hardship and
- encouraging the growth of jobs and businesses across the borough.

Although normally we would extend our strategy for 3 years beyond the end of the budget year, i.e. to 2020/21, given that the Government is currently developing mechanisms to significantly change the way Councils are funded from 2020 onwards, the MTFS presented will focus on the period to 2019/20 until more clarity is provided on this over the next 12 months.

This paper sets out the Labour Group's proposed Revenue Budget, Capital Programme and associated Council Tax level for 2017/18 together with the MTFS for the period 2017-2020 based on a review of the existing assumptions and data to reflect the most current information available.

4. RATIONALE

4.1 It is a statutory obligation for the Council to set a balanced Revenue Budget for the financial year 2017/18.

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 that is available to each Council.

The provision of indicative 4 year settlement figures in the 2016/17 funding announcement provided more clarity on which to base our MTFS; as such, the figures provided were incorporated into the MTFS presented to Finance Council in February 2016, pending formal approval of acceptance which was given at Council Forum in October 2016. Acceptance of the offer was predicated on publication of an Efficiency Plan based on the savings programme and information contained within the Budget and MTFS; subject to approval of the attached 2017/18 Budget and MTFS 2017-2020, this report and supporting documents will be published to meet our obligations.

Barring exceptional circumstances, and subject to the normal statutory consultation process for the Local Government Finance Settlement, the Government expects the provisional figures to be the amounts presented to Parliament each year. As such the MTFS includes Government funding based on the Secretary of States' proposed allocations up to 2019/20.

5.2 Core Spending Power

The Core Spending Power figure is provided to us by the Government as part of the Finance Settlement; it is an estimate of the core revenue funding available for local authority services, including Council Tax and locally retained Business Rates;

Core Spending Power	2016/17	2017/18
	£ M	£ M
Settlement Funding Assessment (SFA)	69.6	63.9
Council Tax Requirement	43.1	45.2
Potential additional Council Tax from Adult Social Care Precept	0.8	1.8
2017/18 Adult Social Care Support Grant	-	0.8
Improved Better Care Fund	-	0.7
New Homes Bonus	1.7	1.4
Total	**115.3**	**113.8**
Change in Core Spending Power		(£1.5m)
Percentage Change		(1.3%)

This calculation does not reflect inflationary and demand pressures which are expected to be self-funded. The figure differs slightly to the actual figures included in the 17/18 Budget and MTFS for Council Tax, as the latter are based on the most up to date information available within the Council i.e. number of properties, tax band and growth assumptions.

5.3 Settlement Funding Assessment (SFA)

Each year a Settlement Funding Assessment (SFA) is announced for each authority by the Secretary of State; this represents an assessment of the level of resources required by the authority which will be met from Business Rates and Revenue Support Grant in the year.

As part of the multi-year settlement, figures have been provided for 2017/18 and provisional figures for the 2 years thereafter which have been included within the Budget for 2017/18 and the MTFS. As noted in **Section 1** above however, the final Finance Settlement has been delayed until 22nd February 2017 and therefore the figures for 2017/18 included in the report have not been confirmed at the time of issuing this report.

The SFA is split between resources received via:

- Revenue Support Grant (RSG),
- an assessment of the Council's share of Business Rates collectable plus
- a top-up element provided by central government

The SFA for Blackburn with Darwen is as follows;

	2017/18 £m	2018/19 £m	2019/20 £m
Settlement Funding assessment (SFA)	63.9	60.8	57.8
Funded by:			
Revenue Support Grant	22.3	17.8	13.3
Business Rate Baseline	41.6	43.0	44.5
Comprising			
- Business Rates retained by BwD	19.1	19.7	20.4
- Top-up funding provided by government	22.5	23.3	24.1
Total			
Reduction in SFA	(5.7)	(3.1)	(3.0)

5.3.1 Revenue Support Grant (RSG)

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.

Government has made clear the intention that RSG will reduce over time in the move to 100% Business Rates Retention by 2020; the reduction in the grant has been, and will continue to be significant, from a figure of £37.0m in 2015/16 down to £13.3m in 2019/20.

5.3.2 Local share of Business Rates

As part of the current Business Rates Retention Scheme (BRRS), 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%.

As a consequence of the recent revaluation exercise (see **Appendix E - Section 5.4.1** below), the total rates payable in the Borough will decrease with effect from 2017/18. However, as agreed at the time the Business Rates Retention mechanism was introduced, in order to ensure the impact of revaluation is neutral on local authorities, the Government has increased the 'top-up' payment to the Council; this does however increase the Council's reliance on Government funding for the future.

The Government is currently developing mechanisms to move to a 100% Business Rates Retention scheme by 2020 which will fundamentally change the funding levels for every Council beyond that date. Further details on this are outlined in **Appendix E - Section 5.4.2**

5.3.3 Top Up

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; for those whose funding levels reduced following introduction of the BRR scheme, they 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.

5.4 Council Tax

Council Tax levels had remained frozen at their 2010/11 levels for 5 years until 2016/17 however given the scale of the budget gap, the Council adopted a 1.99% increase in 2016/17 (i.e. the maximum general increase permitted under the government's

referendum cap), alongside reductions in expenditure and increases in other available income streams.

The Financial Settlement for 2016/17 introduced an option for all authorities with responsibility for Adult Social Care to increase Council Tax in 2016/17, and for each year up to and including 2019/20, 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. Given the escalation of costs and mounting pressures on Adult Social Care services, the Council proceeded with the increase and assumed a 2% increase in each financial year through to 2019/20 in the MTFS.

In the draft Financial Settlement for 2017/18, the government announced the option for Councils to re-phase the implementation of this precept with a maximum precept of 3% in any one year, whilst retaining a cap of 6% over the 3 years through to 2019/20.

Given the scale of the financial and demand pressures on these services, the 2017/18 Budget and MTFS has included assumed increases of;

- 3.0% in 2017/18
- 1.5%* in 2018/19
- 1.5%* in 2019/20

*(*actual increases remain subject to formal decision at Finance Council each year)*

5.5 Local Council Tax Support and 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 2017/18 is £0.84m but is estimated to reduce to £0.75m by 2019/20 following the move to Universal Credit and the impact of other welfare reforms.

5.6 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 bonus covers new-build homes, conversions and long-term empty homes brought back into use, with an extra payment for providing affordable homes. The annual amount of the grant is based on one years’ average Council Tax for the tax band in which the new home would fall.

In previous years, once earned the amount would be paid for 6 years however, with effect from 2017/18 this has been reduced to 5 years with effect from 2017/18 and then to 4 years from 2018/19

The figures in the draft Finance Settlement have been incorporated into the 2017/18 budget and MTFS as follows;

	2017/18 £m	2018/19 £m	2019/20 £m
New Homes Bonus	1.43	1.02	0.98

The settlement has also introduced a baseline for housing growth; this will initially be set at 0.4% of the Council Tax base for 2017/18 and as such, growth below this level will not qualify for a bonus allocation. The government has stated that it will retain the option of making adjustments to the baseline in future years in the event of a significant increase in housing growth.

With effect from 2018/19 the government has also stated that it will consider withholding new bonus payments from local authorities that are not planning effectively i.e. from those who are not making positive decisions on planning applications and delivering housing growth, as well as withholding payment for homes that are only built after appeal.

The Government has been clear that the reduction in the New Homes Bonus funding will be redirected to contribute to the increase in the Improved Better Care Fund.

5.7 Improved 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 these services in future years. The Improved Better Care Fund was announced as part of the 2016/17 Finance Settlement to be introduced with effect from 2017/18, funded in part through reductions in the New Homes Bonus allocation.

Government have consulted on the distribution of the Improved Better Care Fund as part of the Local Government Finance Settlement for 2017/18 and included proposed allocations within the Core Spending Power (see **Section 5.2** above); for Blackburn with Darwen, over the period of the MTFS, these are;

	2017/18 £m	2018/19 £m	2019/20 £m
Improved Better Care Fund	0.72	3.71	6.26

Further guidance in respect of the management and monitoring of the Improved Better Care Fund, and its inclusion in the pooling arrangements for the existing Better Care Fund, are still awaited.

5.8 Adult Social Care Support Grant

In recognition of the immediate national pressures on Adult Social Care budgets and the fact that allocation of the Improved Better Care Fund is weighted towards the later years of the MTFS, the Government has announced the introduction of a non-recurring, Adult Social Care Support Grant for 2017/18. This distributes £241m nationally according to the Adult Social Care Relative Needs Formula so that all authorities with responsibility for social care will receive a share of the funding; the Council's share, which is £0.77m, will be utilised to support the increase in costs in the Adult Social Care portfolio.

5.9 Dedicated Schools Grant (DSG) and Education Services Grant Funding (ESG)

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

For Dedicated Schools Grant the funding arrangements for 2017/18 are broadly similar to last year.

With regards to the Education Services Grant, in the 2015 Spending Review the Government announced the removal of the ESG general funding rate for Local Authorities. This is the first stage of implementation of a new National Funding Formula and sees the phasing out of ESG from 2017/18.

Until 2017/18 ESG was made up of two rates that funded two groups of services:

- the 'retained duties rate' to fund services that Local Authorities provide to all schools
- the 'general duties rate' to fund services that Local Authorities provide to maintained schools but which academies provide for themselves.

From 2017/18 the 'general duties rate' is ending and the ESG 'retained duties rate' will now be transferred into the Schools Block element within DSG.

The Government has allocated transitional funding (our allocation being £488k), from April 2017 to August 2017 inclusive, to assist in managing the financial implications of the change however with effect from September 2017, the general funding rate will then be removed and other sources of funding will need to be utilised to pay for education services previously funded by ESG; some of these may be funded through DSG with the agreement of the Schools Forum.

5.10 Public Health

In 2017/18 the Public Health Grant remains as a ring fenced grant to the Local Authority and as such any reduction in funding following the introduction of the new formula to redistribute funding across local authorities will be offset by a corresponding decrease in expenditure. For Blackburn with Darwen the 2017/18 allocation of grant is £15.22m.

5.11 Business Rates 2017/18

Rateable values and the rate in the pound (multiplier) are determined by the Valuation Office and 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.

5.12 Business Rates beyond 2017/18

In 2015 the Chancellor announced that local government would be able to keep 100% of Business Rates by 2020. Using forecasts produced by the Office for Budget Responsibility (OBR), the Government has estimated that this would mean an additional £13.0 billion would be kept as income by Councils by 2020/21; the intention therefore was also made clear to transfer new responsibilities to local government to ensure cost neutrality across all of the funding changes.

Within the current system there is currently a mechanism for redistribution of funding;

- Top-ups - provided to reflect the fact that there are councils who have relatively high levels of need but low levels of income generated through business rates
- Tariffs – reflecting lower relative needs but higher levels of business rates income.

The Secretary of State for Communities and Local Government is undertaking a full review of needs and redistribution for the new system when it comes into force.

The Council currently receives a top-up grant however there is insufficient information at present to model the financial impact of the changes; work is progressing nationally with a number of complete and planned consultations regarding the changes. The Council will contribute to these through its representation on SIGOMA (Specialist Interest Group of Municipal Authorities).

5.13 Growth Agenda

The Council remains 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 for Prosperity 2014 - 2020', a commitment was made to deliver 3,250 additional homes over the period and an extra 100,000sqm of new commercial floor space. From this, additional revenue will be generated for the Council in relation to additional Council Tax and additional Business Rates income.

The impact of this estimated growth on the Council's Business Rates and Council Tax income streams on the 2017/18 Budget and the MTFS through to 2019/20, is outlined in **Appendix E Section 5.3**.

5.14 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.

Increases in fees and charges for existing services, together with the expansion of existing and the development of new services, have all contributed to addressing the budget gap as part of the £15.0m savings programme (**Appendix C(ii)**).

6. KEY ISSUES - EXPENDITURE

Given the scale of the financial challenge, throughout the course of 2016/17 Executive Members and Officers have continued to review all services and developed options to deliver budget reductions as part of the £15.0m savings programme.

The development of the approach, strategies and options to manage costs within the resources available was presented to Policy Council in December 2016 and key decisions were taken to alleviate and assist in closing the budget gap. Despite the efforts of Executive Members and Officers, the scale of the budget reductions required in 2017/18 and beyond, combined with those already implemented since 2010, will lead to more significant reductions in the services provided to the residents of this Borough.

The breakdown of the £15m Savings Programme by portfolio and by savings type are summarised at **Appendix C(ii)**;

6.1 Workforce Review

As reported to Finance Council last year, given the scale of the funding reductions it is unfortunate but inevitable that there have been job losses, including compulsory redundancies, although through close working with staff and the Trades Unions these have been kept to a minimum. As the savings programme progresses, this will continue to be the case.

The Workforce Review Programme established in November 2015, has worked throughout 2016/17 to support the savings programme and will continue to do so until the summer of 2017. This has been a rolling programme extending to all portfolios, departments and teams and 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.

6.2 Apprentice Levy

The Apprenticeship Levy is a mandatory tax from April 2017 for employers with a UK payroll bill of £3m+, who will be charged a levy of 0.5% of their overall payroll bill. Employers in England will be able to reclaim their contributions in the form of digital vouchers to pay for apprenticeship training programmes for both new and existing staff.

6.3 Portfolio Budget Pressures

In delivering the budget for 2017/18 and preparing the MTFS, the Council has 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 proposed portfolio cash limits are detailed in **Appendix C(i)** with explanation of the significant movements within each.

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

6.3.1 Health and Adult Social Care

Pressures in Adult Social Care across the country have been widely publicised in the national media over the past 12 months. The portfolio has faced another very challenging year 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.

Whilst the portfolio has continued to deliver efficiencies during the year, the ongoing financial pressures cannot be contained and the Council has again been required to utilise reserves to manage this budget.

6.3.2 Children's Services

Increasing demand has led to financial pressures within Children's Services over the course of the year which the portfolio has tried to contain, whilst ensuring that the most vulnerable of our children are protected.

The number of referrals, the number of open cases and the number of looked after children have all been increasing and as such the costs associated with meeting this increase in demand, and the high costs of specific needs of some of these children, commissioned placements in particular, has placed a strain on the portfolio budget.

6.3.3 Environment

The portfolio has, and will continue to face particular cost pressures arising due to increased tonnages in waste management and the increased costs of household waste recycling contracts.

6.4 Other Pressures

6.4.1 Pensions

The triennial actuarial valuation of the Local Government Pension Scheme in 2016, has identified an increase from 12.4% to 14.8% in Employer Pension contributions for the Blackburn with Darwen Borough Council section of the fund; this is required to meet the projected increase in the value of the future liabilities of those staff currently working in the organisation and who are in the pension fund.

Following discussions with the Scheme Actuary and the Head the Lancashire County Pension Fund, and following agreement by the Lancashire Local Pension Board, it has been agreed that the Council will take a stepped approach to implementing the increase over the next 3 years as outlined in **Appendix E Section 6.1**.

The Council will continue to repay the scheme deficit over an agreed 19 year repayment period and will reduce costs further by taking advantage of the discount offered for early payment i.e. by paying all of the above pension contributions at the start of each financial year rather than on a monthly basis; this will result in a net saving, after accounting for interest on borrowing, of approx. £280k per annum.

6.4.2 National Living Wage

The Autumn statement announced an increase in the National Living Wage level of £0.30 to £7.50 with effect from 1st April 2017 (for workers aged 25 and above); this will increase to £9.00 per hour by 2019/20.

Increases were also announced in the National Minimum Wage levels as follows;

- Increase from £6.95 to £7.05 per hour for 21-24 year olds
- Increase from £5.55 to £5.60 per hour for 18-20 year olds
- Increase from £4.00 to £4.05 per hour for 16-17 year olds
- Increase from £3.40 to £3.50 per hour for apprentices

As noted above, these increases have significant impact on our external providers, specifically those providing Social Care including residential and domiciliary care.

The commissioning budgets included in the 2017/18 Budget, and in the MTFS through to 2019/20, include some provision for increases in provider hourly rates and contract changes from the increase in the NLW with effect from 1st April 2017, 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 this at this stage.

It is recommended that delegated authority is given to the Executive Member for Health and Adult Social Care, in consultation with the Executive Member for Resources, to agree the hourly rates and contract changes with social care providers in 2017/18 applicable from 1st April 2017.

7. SUMMARY

In light of the draft settlement for 2017/18, 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 2017-2020

A Capital Programme for 2017 to 2020 of £48.6m is also recommended to the Finance Council for approval as detailed at **Appendix D**. 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.

This predominantly comprises of existing commitments including investment:

- in our local transport plan
- in the highways network recovery programme and
- in aids and adaptations through provision of disabled facilities grants

Allocations are also included;

- for our successful Growth Deal 3 bid which will open up the Pennine gateways around the Borough to facilitate housing and business growth
- to support continued investment in IT services to underpin our 'digital first' approach to delivering efficiencies and in turn, cash savings. Before projects are allocated funding from the reserve however, they will be subject to a rigorous business case approval process and detailed Member reports will be produced in line with financial procedures as required.
- to support the accommodation review which again will drive efficiencies and savings through rationalisation and a more cost effective use of space

The programme will contribute towards the achievement of the Council's key priorities;

- Creating more jobs and supporting business growth – through construction and in improving transport networks and enhancing the town centre
- Improving housing quality and building more houses – by facilitating access to housing developments
- Making your money go further – through rationalisation of accommodation and maximising the use of technology to streamline services and processes.

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 2017/18 Budget and the Recommended Level of Reserves', the Director of Finance and IT is recommending to Finance Council that the minimum level of Unallocated Reserves for 2017/18 is set at £4.0m.

10. COUNCIL TAX

The assumptions made within these budget proposals, in line with Government's assumptions for 2017/18, are that the Council will increase Council Tax in 2017/18 by 4.99% reflecting;

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

3.00% - to assist it in meeting expenditure on adult social care functions

11. MEDIUM TERM FINANCIAL STRATEGY

The MTFS 2017 to 2020 has been reviewed and updated, incorporating the indicative funding allocations for 2018/19 and 2019/20 included in the Government's multi-year settlement "offer" which was accepted by the Council in October 2016 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 the Council's priorities and will try to minimise the impact of spending cuts through 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 2017/18
- Appendix B - Balancing the 2017/18 Budget Gap
- Appendix Ci - Portfolio Cash Limits
- Appendix Cii - Budget Savings Programme 2017/18 to 2019/20
- Appendix D - Capital Programme 2017-20
- Appendix E - Medium Term Financial Strategy 2017-20
- Appendix F - Pay Policy Statement 2017/18

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 Council's net revenue expenditure for 2017/18, the Capital Programme and the level of Council Tax, together with indicative figures for the following 2 years through to 2019/20.

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.

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: 27th February 2017

Appendix A

Budget Summary 2017/18

	2017/18 budget as agreed at Finance Council 2016	Updated 2017/18 Budget	Variation
	£000	£000	£000
Net expenditure			
Portfolio cash limited budgets	107,473	102,502	(4,971)
Net income from support service recharges	(641)	(641)	0
Interest, MRP and revenue contributions	23,330	18,395	(4,935)
Contingencies	(5,370)	3,885	9,255
Parish precepts and grants	182	181	(1)
Net expenditure	**124,974**	**124,322**	**(652)**
Resources			
Government non-ringfenced grants	53,492	59,919	6,427
Retained share of business rates including government grants in lieu of business rates	25,078	19,281	(5,797)
Council Tax	44,080	44,830	750
Council Tax increase - general increase of 1.99% (as assumed in MTFS of Feb 2016)	874	889	15
Council tax increase - 3.0% increase in respect of Adult Social Care services (had assumed 2% increase in MTFS of Feb 2016)	879	1,340	461
Collection fund (surplus) / deficit	0	(364)	(364)
Contribution from / (to) reserves	250	(1,573)	(1,823)
Net resources	**124,653**	**124,322**	**(331)**
Required Reductions in Expenditure/Increases in Revenue	**321**	**0**	**(321)**

The table above identifies the changes between the summary 2017/18 Budget headings as presented in the MTFS to Finance Council back in February 2016 and the current, updated position presented to Finance Council on 27th February 2017.

Appendix B

Balancing 2017/18 Budget

	£000
2017/18 budget gap February 2016	**321**
Budget pressures and savings	4,515
Increase in Government resources following notification of draft Finance Settlement in December 2016 (awaiting confirmation in final settlement due on 22nd February 2017)	(4,736)
Revised Budget Gap for 2017/18	**100**
Revised assumptions in respect of pay and price inflation, council tax and business rates growth and other adjustments	(618)
Savings in interest and debt repayment due to MRP policy change and reduced / re-phased capital programme	(4,935)
Impact of Business Rates revaluation exercise (offset by increase in government Top-Up grant included within Govt resources above)	4,106
Proposed Council Tax increase - general increase of 1.99% (as included in the MTFS in Feb 2016)	(15)
Proposed Council Tax increase re Adult Social Care functions - assumed 3% increase (1% increase over and above the figure included in the MTFS presented in Feb 2016)	(461)
Increased contribution to reserves	1,823
2017/18 Balanced Budget	**0**

The table above summarises the way in which the Budget Gap for 2017/18 (as presented in the MTFS to Finance Council back in February 2016) has changed over the past 12 months to produce a balanced budget as required by statute.

Appendix C(i)

PORTFOLIO CASH LIMITS

PORTFOLIO	2017/18 budget Finance Council 2016	Updated 2017/18 Budget	Variation (Incr)/Decr	
Health and Adult Social Care	40,303	43,353	(3,050)	**NOTE 1**
Children's Services	22,351	21,134	1,217	
Environment	12,318	8,860	3,458	
Leisure, Culture and Young people	4,575	3,162	1,413	
Neighbourhoods and Prevention Services	3,466	1,368	2,098	
Regeneration	4,878	7,692	(2,814)	**NOTE 2**
Resources	14,871	13,531	1,340	
Schools and Education (non-DSG)	4,711	3,402	1,309	
TOTAL PORTFOLIO CASH LIMITS	**107,473**	**102,502**	**4,971**	

NOTE 1 - the increase in the cash limit reflects uplift for social care provider costs in 16/17 and 17/18 linked to increases in National Living Wage, along with other inflationary increases in commissioned contracts, as well an uplift to support increases in demand. This is offset by cost reductions arising from the savings programme achieved in 16/17.

NOTE 2 - the increase reflects the transfer of budgets for Highways from the Environment portfolio and the consolidation of budgets relating to the strategic partnership into the portfolio

The table above summarises the changes in the Portfolio Cash Limits between the projected budget for 2017/18 included in the February 2016 MTFS and the Actual Budget for 2017/18 presented for approval to Council on 27th February 2017

APPENDIX C(ii)

PORTFOLIO CONTRIBUTIONS TO THE SAVINGS PROGRAMME
(as approved by Policy Council 1st December 2016)

PORTFOLIO SAVINGS TO BE DELIVERED	Savings delivered for 17/18		Cumulative	
			Savings to be delivered for 2018/19	Savings to be delivered for 2019/20
Health and Adult Social Care				
- Workforce Reviews	696,400		1,000	121,700
- Cost Reductions	0		0	0
- Service Cuts	141,800		0	0
- Increased Income	0		0	0
- Savings through alternative delivery models and service changes approved by Policy Council on 1st Dec 2016	117,900		175,600	175,600
Total Savings for Health and Adult Social Care	956,100		176,600	297,300
Children's Services				
- Workforce Reviews	1,222,423		84,250	84,250
- Cost Reductions	72,000		0	0
- Service Cuts	10,000		0	0
- Increased Income	500,000		0	0
- Savings through alternative delivery models and service changes approved by Policy Council on 1st Dec 2016	500,000		0	0
Total Savings for Children's Services	2,304,423		84,250	84,250
Environment				
- Workforce Reviews	231,096		50,000	50,000
- Cost Reductions	5,000		0	0
- Service Cuts	0		0	0
- Increased Income	360,000		0	0
- Savings through alternative delivery models and service changes approved by Policy Council on 1st Dec 2016	0		0	0
Total Savings for Environment	596,096		50,000	50,000
Leisure, Culture and Young people				
- Workforce Reviews	1,171,334		0	0
- Cost Reductions	1,500		0	0
- Service Cuts	5,000		0	0
- Increased Income	159,000		0	0
- Savings through alternative delivery models and service changes approved by Policy Council on 1st Dec 2016	0		0	0
Total Savings for Leisure, Culture and Young People	1,336,834		0	0
Neighbourhoods & Prevention Services				
- Workforce Reviews	344,000		67,800	67,800
- Cost Reductions	95,000		0	0
- Service Cuts	112,900		0	0
- Increased Income	0		0	0
- Savings through alternative delivery models and service changes approved by Policy Council on 1st Dec 2016	178,000		0	0
Total Savings for Neighbourhoods & Prevention Services	729,900		67,800	67,800
Regeneration				
- Workforce Reviews	0		0	0
- Cost Reductions	208,800		8,000	8,000
- Service Cuts	150,000		0	0
- Increased Income	75,000		0	0
- Savings through alternative delivery models and service changes approved by Policy Council on 1st Dec 2016	600,000		50,000	0
Total Savings for Regeneration	1,033,800		58,000	8,000
Resources				
- Workforce Reviews	1,617,100		350,000	350,000
- Cost Reductions	165,200		0	0
- Service Cuts	0		0	0
- Increased Income	428,202		0	0
- Savings through alternative delivery models and service changes approved by Policy Council on 1st Dec 2016	0		0	0
Total Savings for Resources	2,210,502		350,000	350,000
Schools and Education (non-DSG)				
- Workforce Reviews	457,700		0	0
- Cost Reductions	160,000		0	0
- Service Cuts	140,000		0	0
- Increased Income	403,000		0	0
- Savings through alternative delivery models and service changes approved by Policy Council on 1st Dec 2016	0		0	0
Total Savings for Schools and Education (non DSG)	1,160,700		0	0
Corporate/Cross portfolio savings				
- Workforce Reviews - cross portfolio Business Support review	550,000		200,000	200,000
- Cost Reductions - cross portfolio Procurement and Contracting savings	50,000		700,000	950,000
- Service Cuts	0		0	0
- Increased Income	1,750,000		250,000	450,000
- Savings through alternative delivery models and service changes approved by Policy Council on 1st Dec 2016	0		0	0
Total Savings for Schools and Education (non DSG)	2,350,000		1,150,000	1,600,000
TOTAL PORTFOLIO SAVINGS PROGRAMME	**12,678,355**		**1,936,650**	**2,457,350**

The table above summarises the elements of the Savings Programme to be delivered by each of the Portfolios to meet the challenging savings programme included within the MTFS presented for approval to Council on 27th February 2017

APPENDIX D

Capital Programme 2017/2021

	2017/18 £'000	2018/19 £'000	2019/20 £'000	Future Years £'000
1. Estimated Available Resources				
Unsupported Borrowing	4,527	1,756	1,941	921
- Department for Education	6,495	-	-	-
- Department for Transport Grants	3,827	6,376	7,976	4,376
- Disabled Facilities Grant	1,461	1,461	1,461	2,922
Other Specific Grants	333	182	-	-
Government Grants	**12,116**	**8,019**	**9,437**	**7,298**
External Contributions	1,515	1,250	-	293
Revenue Contributions	500	-	-	-
Capital Receipts	2,557	3,000	2,000	-
TOTAL ESTIMATED AVAILABLE RESOURCES	**21,215**	**14,025**	**13,378**	**8,512**

2. Approved schemes				
Health & Adult Social Care				
Disabled Facilities Grant	1,658	1,458	1,458	2,916
Telecare Project	160	160	160	320
Shorey Bank Extra Care Scheme Site	186	-	-	-
Demolition of Feniscliffe HOP	75	-	-	-
	2,079	**1,618**	**1,618**	**3,236**
Children's Services				
Disabled Facilities Grant	300	300	300	600
Early education of two year olds	233	-	-	-
	533	**300**	**300**	**600**
Environment				
	-	**-**	**-**	**-**
Leisure, Culture & Young People				
Darwen Leisure Centre	6	-	-	-
	6	**-**	**-**	**-**
Neighbourhoods, Housing & Customer Services				
Clearance - Bank Top & Griffin	100	300	-	-
Insulation for hard to treat properties	50	-	-	-
Equity Loans/PALS Griffin	73	-	-	-
Neighbourhood Intervention Fund	100	400	-	-
Development Assesment Fund	100	-	-	-
Affordable Homes	100	-	-	-
Empty property cluster scheme	100	300	-	-
	623	**1,000**	**-**	**-**
Regeneration				

Assistance to Industry	150	150	150	300
Darwen 3 Day Market	274	-	-	-
Local Transport Plan	5,308	4,026	2,976	2,976
Growth Deal 3 (Pennine Gateways)	-	3,600	5,000	1,400
Cathedral Quarter Development Office Block	301	-	-	-
	6,033	**7,776**	**8,126**	**4,676**
Resources				
Corporate ICT Replacment Equipment	934	-	-	-
Corporate ICT Monitor and management	70	-	-	-
Corporate ICT Digital Services	100	-	-	-
Corporate ICT Public Access	150	-	-	-
Corporate ICT Wan Connectivity	100	-	-	-
Corporate ICT Digitisation of Planning Service	50	-	-	-
Corporate ICT Finance System	50	-	-	-
Corporate ICT Microsoft EA	22	-	-	-
Old Town Hall Stonework	25	-	-	-
Land Remediation Schemes	214	-	-	-
Corporate DDA	100	-	-	-
Griffin Lodge	300	-	-	-
	2,115	**-**	**-**	**-**
Schools & Education				
Capital Grant Allocations 2016-18 (schemes still to be determined)	2,212	-	-	-
Cedar's Primary	950	-	-	-
St Barnabus and St Pauls	550	-	-	-
St Thomas CE Primary	5	-	-	-
ST Thomas Centre 2	475	-	-	-
Newfield ASD	2,300	-	-	-
Audley Nursery	1	-	-	-
Longshaw nursery	1	-	-	-
Fenicowles	1	-	-	-
	6,495	**-**	**-**	**-**
TOTAL Approved Schemes	**17,884**	**10,694**	**10,044**	**8,512**

3. Earmarked schemes

Corporate ICT	1,416	1,416	1,418	-
Corporate Property Investment	658	658	659	-
Coporate Acommodation Strategy	757	757	757	-
TOTAL Earmarked capital reserves	**2,831**	**2,831**	**2,834**	**-**

4. Contingent schemes

Other Contingent Schemes	500	500	500	-
Total Contingent schemes	**500**	**500**	**500**	**-**

TOTAL CAPITAL PROGRAMME	**21,215**	**14,025**	**13,378**	**8,512**
Additionally, approval is given to the use of further capital resources if required, to fund vehicle renewals (usually financed by lease) This approved allocation is **not** included in the total's above	700	700	700	-

Appendix E

MEDIUM TERM FINANCIAL STRATEGY 2017 to 2020

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 the Council's 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 3 years beyond the end of the budget year, i.e. to 2020/21, given that Central Government is currently developing mechanisms to significantly change the way in which Councils are funded from 2020 onwards, the MTFS presented will focus on the period to 2019/20 until more clarity is provided 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 agreed by elected members at Council Forum in July 2016. The Plan sets out for residents, staff and partners, the Council's top priorities for 2016 to 2019 and how the Council will continue to improve services and prepare for 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

Local government in England is now six and a half years into a period of public sector austerity, which will continue until at least 2019/20 as confirmed in the Chancellor's Autumn Budget Statement in 2016.

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

An update report on the MTFS was presented to Policy Council on 1st December 2016. The report outlined that from a base of £183.1 million in 2010/11, the borough has seen a significant reduction in funding to £118.4 million in 2016/17; this reduction of 35.3% is projected to reach 40% by 2019/20.

The 40% 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 cuts have been delivered through the Transformation Programme during 2010 to 2014 and through successive savings plans since i.e.;

- that agreed by Council in September 2014 (approx. £26m),
- a £3.6m savings programme to balance the budget in 2016/17 and
- through the development of a £15.0m savings programme during 2016/17 which is currently in delivery and will complete over the course of the next 2 years to close the budget gap (as summarised in **Appendix C(ii)**).

With regards to funding, as part of the 2015 Spending Review and Local Government Settlement for 2016/17, an offer of a 4 year funding settlement up to 2019/20 was made to all Councils. The purpose of this offer was to assist all local authorities by providing greater certainty of their funding over the period and to provide more stability to enable more proactive planning of their service delivery.

At their meeting in 6th October 2016, Council Forum agreed to accept this offer.

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

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, the figures were incorporated into the MTFS presented to Finance Council in February 2016.

Although the Council has accepted the multi-year settlement offer, and the figures have been incorporated into the MTFS for the 3 financial years 2017/18, 2018/19 and 2019/20 as detailed in the table below, 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	2017/18 £M	2018/19 £M	2019/20 £M
Revenue Support Grant	22.3	17.8	13.3
Top Up	22.5	23.2	24.1
New Homes Bonus	1.4	1.1	1.0
Council Tax and Housing Benefit Admin Grant	0.8	0.8	0.7
Business Rates related grants	2.4	2.2	2.2
Education Services Grant (ESG)	0.5	-	-
Better Schools Fund PFI funding	8.5	8.5	8.5
Adult Social Care Support Grant (17/18 only)	0.8	-	-
Sc 31 Grant for Improved Better Care Fund	0.7	3.7	6.3
Total Government Resources	**59.9**	**57.3**	**56.1**

5.2 Council Tax

Despite maintaining Council Tax at its 2010/11 level for the previous 5 years, given the withdrawal of Council Tax Freeze Grant, the Council increased the tax by 3.99% in 2016/17 to assist in closing the budget gap; by 1.99% in relation to general increases in the cost of Council services and by 2.00% to meet the costs of Adult Social Care.

The MTFS in 2016/17 had assumed the same level of increase in each year from 2017/18 through to 2019/20 however, given the financial pressures that the Council is facing, particularly in Adult Social Care, it has been necessary to review these assumptions and as such a different phasing of the increases in the Adult Social Care precept is recommended i.e. 3% in 2017/18, reducing to 1.5% in both 2018/19 and 2019/20. The total recommended increase of 6% remains the same over the 3 year period; it is the phasing of this that has been adjusted.

5.3 Growth Agenda

As detailed in the main report, the Council remains committed to contributing to the delivery of the Local Strategic Partnership's 'Plan for Prosperity 2014 - 2020' for the Borough. The document outlines the plan to deliver 3,250 additional homes over the period and an extra 100,000sqm of new commercial floor. 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 2017/18 and in the MTFS through to 2019/20, additional Council Tax and Business Rates income, based on growth, has been assumed as follows;

Additional Revenue;	2017/18 £'000s	2018/19 £'000s	2019/20 £'000s
Council Tax	750	1,185	1,991
Business Rates	-	45	185
TOTAL Growth Income	**750**	**1,230**	**2,176**

5.4 Business Rates

5.4.1 Revaluation

The results of the recent Business Rates Revaluation exercise, which has updated rateable values to reflect the market as at 1st April 2015, will take effect from 1st April 2017. 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.

As this will obviously create changes that are outside the control of individual councils, the Government agreed when it introduced the 50% Business Rates Retention Scheme that following revaluation, it would adjust each authority's 'tariff' or 'top-up' to ensure that as far as practicable, retained income would remain the same after revaluation as it was immediately before.

The second draft rating list for 2017 has now been issued which identifies an overall decrease in the rateable values of properties in the Borough as follows;

2016 Rating List Rateable value	2017 Rating List Rateable Value (2nd draft)	Reduction
£128.87m	£118.95m	(£9.92m)

5.4.2 100% Business Rates Retention

The Government is committed to local government retaining 100% of its business rates revenue by the end of this Parliament. In order to ensure that the reforms are fiscally neutral, councils will gain new responsibilities and some government grants will be phased out.

To achieve such radical reform, the Government is in consultation with councils, businesses and other stakeholders to seek views and ideas across all aspects of the reforms including system design. Also important in this will be the recognition of the diversity and need of different areas; there is a balance to be struck between providing a strong incentive for growth within local areas and in considering the distribution of funding between local authorities.

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

Whilst the funding arrangements for Dedicated Schools Grant in 2017/18 are broadly the same as last year there have been some key changes to the Education Services Grant as part of the first stages of implementation of a new National Funding Formula; this will see the phasing out of ESG from 2017/18.

Whilst the Government has allocated transitional funding from April 2017 to August 2017 (£488k) to assist in managing the financial implications of the transition, the general funding rate will be removed from September 2017 and other sources of funding/income will need to be utilised to pay for education services previously funded by ESG; some of these may be funded through DSG with the agreement of the Schools Forum.

5.6 Improved Better Care Fund

The Government has consulted on the distribution of the Improved Better Care Fund as part of the Local Government Finance Settlement consultation for 2017/18 and has included proposed allocations within the draft settlement itself which for Blackburn with Darwen are;

- 2017/18 - £0.72m
- 2018/19 - £3.71m
- 2019/20 - £6.26m

The Improved Better Care Fund represents a national increase in funding of £105m in 2017/18, rising to £825m in 2018/19 and to £1,500m in 2019/20. The proposed approach to distribution of the funding recognises that authorities have varying capacity to raise Council Tax (including the additional Council Tax raised through the Adult Social Care Precept).

Although the fund will be utilised in consultation with the NHS, the funding will be allocated directly to Local Authorities through a separate Section 31 grant. Further guidance in respect of the fund, and its inclusion in pooling arrangements with the existing Better Care Fund, are still awaited.

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 have identified that our overall scheme deficit has reduced from £110.2m to £81.8m and that the funding level has increased from 77% to 85%.

Following discussions with the Scheme Actuary and the Head of Lancashire County Pension Fund, and agreement by the Lancashire Local Pension Board, it has been confirmed that the Council can continue to repay the scheme deficit over a period of 19 years (rather than the original proposal of 16 years) provided contributions are 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 has identified that an increase from 12.4% to 14.8% in Employer Pension contributions is 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 has been agreed that the Council can take a stepped approach to implement these increases as follows;

2017/18	maintain contributions at 12.4%
2018/19	increase contributions to 13.4%
2019/20	increase contributions to 14.8%

In order to reduce costs further, the Council will take advantage of the discount offered for early payment i.e. instead of monthly payment of contributions into the scheme, these will be made at the beginning of each financial year, inclusive of the annual deficit repayment; this will result in a net saving, after accounting for interest on borrowing, of approx. £280k per annum.

6.2 Demand Pressures and Savings Programme

The demand pressures impacting on the Council throughout the period of the MTFS are referred to in the main body of the report, together with details of the agreed savings plans (as outlined in **Appendix C(ii)**).

The MTFS assumes that any increase in demand and/or cost pressures arising over and above the specific provisions made, will be contained within the available budget.

6.3 Pay Awards and the Apprenticeship Levy

Future pay awards are not certain; as such a 1% pay award has been built into the MTFS for each of the next 3 years.

The MTFS also reflects the introduction of the new Apprenticeship Levy payable with effect from April 2017. This is calculated at 0.5% of the total wage bill for all organisations, with limited exceptions, who have a payroll of over £3.0m. Employers in England will be able to reclaim their contributions in the form of digital vouchers to pay for apprenticeship training and assessment. These funds cannot be used to pay for wages, travel, management costs, work placements or traineeships nor can they be used to cover the costs of setting up the apprenticeship programme; employers

can use the fund to progress employees into higher level apprenticeships, or into equal or lower level apprenticeships where this teaches a new set of skills.

Any unspent funds in the digital account will expire after 24 months. Employers who pay the levy will receive a Government top-up of 10% to their total monthly contributions.

6.4 Price inflation

Specific price inflation has been included each year within 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 existing budgets and cash limits.

The commissioning budgets included in the 2017/18 Budget, and in the MTFS through to 2019/20, include some provision for increases in provider hourly rates and contract changes arising from the increase in the National Living Wage with effect from 1st April 2017, 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 this at this stage.

6.5 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 2017/18 and commitments within the Capital Programme in terms of both forecast expenditure and forecast capital receipts.

7.0 Three Year Financial Forecast - Summary

Faced with a forecast deficit rising to almost £48 million by 2019/20, Finance Council agreed a host of measures in February 2016 to close the budget gap over the period of the MTFS. Much progress has been made during 2016/17 in the implementation of these measures including development and significant delivery of a savings programme and increases in income streams.

The financial impact of the actions agreed at Policy Council in December 2016, together with those at the Council Forums in October 2016 and January 2017, are summarised below together with the options recommended to Finance Council to balance the budget in 2017/18 and over the period to 2019/20.

Taking into consideration the assumptions and figures referred to above and in the main body of the report, the MTFS for the period 2017/18 to 2019/20 is as follows;

Appendix E

MEDIUM TERM FINANCIAL FORECAST 2017/18 TO 2019/20

Summary

	2017/18	2018/19	2019/20
	£ 000's	£ 000's	£ 000's
Resources			
Government (non-ringfenced) grants	59,919	57,334	56,083
Business rates retained locally	19,281	19,712	20,412
Council tax	47,059	48,696	50,390
Add collection fund surplus from 2016/17	(364)	0	0
Contribution from reserves	0	0	2,200
Total resources	**125,895**	**125,742**	**129,085**

Net Expenditure			
Portfolio cash limited budgets (net of agreed savings targets)	102,502	103,745	106,096
Net income from support service recharges	(641)	(641)	(641)
Cost of capital investment	18,395	18,191	18,438
Central contingencies	3,885	2,767	5,011
Parish Precepts	181	181	181
Contribution to reserves	1,573	1,499	0
Net expenditure	**125,895**	**125,742**	**129,085**

BUDGET SHORTFALL / (SURPLUS)	**0**	**0**	**0**

Pay Policy Statement for the Year 2017/18

1. Introduction and Purpose

1.1 Under section 112 of the Local Government Act 1972, the Council has the power to appoint officers on such reasonable terms and conditions as the authority "thinks fit". This Pay Policy Statement (the 'statement') sets out the Council's approach to pay policy in accordance with the requirements of Section 38 of the Localism Act 2011.

1.2 The purpose of the statement is to provide transparency with regard to the Council's approach to setting the pay of its employees (excluding teaching staff working in local authority schools) by identifying:

- the methods by which salaries of all employees are determined;
- the detail and level of remuneration of its most senior staff i.e. 'Chief Officers', as defined by the relevant legislation;
- the Committee responsible for ensuring the provisions set out in this statement are applied consistently throughout the Council and recommending any amendments to the full Council.

1.3 It has effect for the year 2017/2018 unless replaced or varied by the full Council.

1.4 Once approved by the full Council, this policy statement will come into immediate effect and will be subject to review on a minimum of an annual basis, the policy for the next financial year being approved by 31st March each year.

The Pay Policy Statement makes reference to a number of related documents and information which will be accessed via links to the Council website. These links will be inserted when the document is approved by Full Council and published in accordance with paragraph 12.1 below.

2. Other legislation relevant to pay and remuneration

2.1 In determining the pay and remuneration of all of its employees, the Council will comply with all relevant employment legislation. This includes legislation such as the Equality Act 2010, Part Time Employment (Prevention of Less Favourable Treatment) Regulations 2000 and where relevant, the Transfer of Undertakings (Protection of Employment) Regulations. The Council ensures there is no pay discrimination within its pay structures and that all pay differentials can be objectively justified through the use of job evaluation mechanisms National Joint Council (NJC) and Hay Group, which directly establish the relative levels of posts in grades according to the requirements, demands and responsibilities of the role.

3. Pay Structure

3.1 The Council uses the nationally negotiated pay spine(s) (i.e. a defined list of salary points) as the basis for its local pay structure, which determines the salaries of the large majority of its (non-teaching) workforce together with the use of locally determined rates where these do not apply.

3.2 The Council adopts the national pay bargaining arrangements in respect of the establishment and revision of the national pay spine(s) for example through any agreed annual pay increases negotiated nationally with joint trade unions.

3.3 All other pay related allowances for Senior Managers are the subject of either nationally or locally negotiated rates, having been determined from time to time in accordance with collective bargaining machinery as for all employees.

3.4 In determining its grading structure and setting remuneration levels for posts the Council takes account of the need to ensure value for money in respect of the use of public expenditure, balanced against the need to recruit and retain employees who are able to meet the requirements of providing high quality services to the community, delivered effectively and efficiently and at times at which those services are required.

3.5 New appointments will normally be made at the minimum of the relevant pay scale for the grade, although this can be varied where necessary to secure the best candidate. Where the appointment salary is above the minimum point of the pay scale and is not affected by other Council policies, for example promotion, alternative employment or flexible retirement, this is approved in accordance with the Recruitment and Selection Code of the Council.

3.6 From time to time it may be necessary to take account of the external pay levels in the labour market in order to attract and retain employees with particular experience, skills and capacity. Where necessary, the Council will ensure the requirement for such is objectively justified by reference to clear and transparent evidence of relevant market comparators, using data sources available from within the local government sector and outside, as appropriate.

3.7 Any temporary supplement to the salary scale for the grade is approved in accordance with the agreed policy.

4. Senior Management Remuneration

4.1 For the purposes of this statement, Senior Management means 'Chief Officers' as defined within the Localism Act. The posts falling within the statutory definition are set out below, with details of their basic salary as at 1st April 2017.

4.2 Where the Council is unable to recruit Chief Officers, or there is a need for interim support to provide cover for a substantive Chief Officer post, the Council will, where necessary, consider engaging individuals under a 'contract for service'. These will be sourced through a relevant procurement process ensuring the Council is able to demonstrate the maximum value for money benefits from competition in securing the relevant service. In assessing such it should be noted that in respect of such engagements the Council is not required to make either pension or national insurance contributions for such individuals.

4.3 The Council does not currently have any Chief Officers engaged under such arrangements.

5. Chief Executive and Chief Officer pay scales 2017/2018
(Last pay award increase applied from 01/04/2017)

All the posts listed below are permanent unless otherwise stated in notes

Executive
Chief Executive of Council
Harry Catherall
£139,488 - £152,415
harry.catherall@blackburn.gov.uk – 01254 585370

Deputy Chief Executive
Denise Park
£119,715 - £128,530
denise.park@blackburn.gov.uk – 01254 585655

Council Management Board Directors
£84,415 - £90,337

Director of Strategy & Funding
Brian Bailey
brian.bailey@blackburn.gov.uk – 01254 585360

Director of Localities & Prevention
Sayyed Osman
sayyed.osman@blackburn.gov.uk – 01254 585340

Director of Finance & IT
Louise Mattinson
louise.mattinson@blackburn.gov.uk – 01254 585600

Director of HR, Legal & Corporate Services
David Fairclough
david.fairclough@blackburn.gov.uk – 01254 585642

Director of Environment & Leisure
Martin Eden
martin.eden@blackburn.gov.uk – 01254 585102

Director of Adult Services (DASS)
Steve Tingle
stephen.tingle@blackburn.gov.uk – 01254 586785

Director of Children's Services (DCS) (plus Special Responsibility Allowance £7,641.00) *
Linda Clegg
linda.clegg@blackburn.gov.uk – 01254 586762

Public Health (WVSM Grade NHS)
£111,000 Fixed Point
Director of Public Health ****
Dominic Harrison
**** *Statutory Transfer (TUPE) in to Council from NHS with effect from 1.4.13*
dominic.harrison@blackburn.gov.uk – 01254 (58)8920

Other Chief Officer Roles 2

Managing Director - Growth Lancashire**
Steven Cochrane
£74,001 - £81,456
steven.cochrane@regeneratepl.co.uk – 01254 304552

***Hosted by the Council and funded jointly by a number of Lancashire Councils who control Growth Lancashire.*

5.1 **Notes**
i) Information is based on the Chief Officer structure with effect from 1st April 2017.

ii) The Chief Executive and Deputy Chief Executive have access to a lease car subject to them meeting the full cost. Car mileage is paid at the published car rates.

iii) Other Directors receive £3,750 p.a. car allowance. This may be paid as contribution towards a lease car or as a monthly (non-pensionable) cash amount car mileage is paid at the published car rate whichever choice above is made.

iv) The Council contract with Capita Plc for services and in 2017/18 the Capita Partnership Director manages some Council Services in the Growth & Development Department.

v) The Chief Officer Employment Committee determines the numbers and grades of Chief Officers - full terms of reference in the Council Constitution. Appointments are subject to consultation with the Executive Board - Current membership of the Committee as follows:
Leader of the Council
2 x Deputy Leader of the Council
Leader of Main Opposition Group

vi) The Chief Executive appointment is subject to full Council approval and the Chief Executive Employment Committee recommends pay and conditions of employment - full terms of reference in the Council Constitution. Current Membership of the Committee as follows:
Leader of the Council
2 x Deputy Leader of the Council
Leader of main Opposition Group.

vii) The Chief Officer Structure Chart is set out at the end of this document.

6. Recruitment of Chief Officers

6.1 The Council's policy and procedures with regard to recruitment of Chief Officers is set out within the Council Constitution.

6.2 When recruiting to all posts the Council will take full and proper account of all provisions of relevant employment law and its own Equal Opportunities Recruitment and Redeployment Policies as approved by the Council.

6.3 The determination of the remuneration to be offered to any newly appointed Chief Officer will be in accordance with the pay structure and relevant policies in place at the time of recruitment.

7. Policy on the remuneration of Chief Officers

7.1 The salaries detailed above are determined by the respective Chief Executive/Chief Officer Employment Committee(s) (as applicable) and are based on the Hay Group methodology as regards job evaluation and also having due regard to the Council's duty to ensure best value and after taking professional advice on pay levels, market conditions and other relevant factors.

7.2 With the exception of progression through the incremental scale of the relevant grade being subject to satisfactory performance, which is assessed on an annual basis, the level of remuneration is not variable dependent upon the achievement of defined targets.

7.3 The Government determines and funds the fees for Returning Officers and for related electoral duties for National, European and Police and Crime Commissioner Elections and these are subject to full re-imbursement and paid to officers as appropriate. The fees for Local Elections are based on a County wide formula.

7.4 To meet specific operational requirements it may be necessary for an individual to temporarily take on additional duties to their identified role. The Council's arrangements for authorising any additional remuneration [e.g. honoraria, ex gratia, 'acting up'] relating to temporary additional duties for Chief Officers are set out in the Council Constitution.

7.5 The level of remuneration is determined as set out above. Other than allowable expenses the Council makes no payments in addition to the basic salary to Senior Managers for undertaking their core role. Overtime is not payable to Senior Managers.

8. Payments to Senior Managers on their ceasing to hold office under or to be employed by the authority.

8.1 The approach to payment of Senior Managers is the same as those which apply to all Council employees including those related to long service awards.

8.2 Currently, the Council operates early retirement scheme(s) where employees may apply for voluntary severance. Payments under the scheme are in accordance with the respective Pension Scheme Regulations.

8.3 Any applications within these schemes for Senior Managers however are subject to approval by the Chief Executive/Chief Officer Employment Committee (as appropriate).

8.4 In circumstances where employees find they are `at risk of redundancy' they may apply for voluntary redundancy and the number of weeks redundancy pay is in accordance with national legislation or contractual national terms of employment. For Senior Managers as for most other employees the Council pay is for the actual weeks' pay due. Again for those Officers in pension schemes payments are made in accordance with the Pension Scheme Regulations. Voluntary redundancy application is open equally to Senior Managers as it is for all employees appropriate.

8.5 In all instances, including Senior Managers, the Council's approach is to avoid staff redundancies wherever possible and try and identify suitable alternative job options as opposed to compulsory or voluntary redundancy. As such in circumstances where an Officer's role is redundant an alternative may be found and if suitable the employee could be redeployed into that role with temporary salary protection (if appropriate) in accordance with the Council's jointly agreed Alternative Employment Policy. For Senior Managers such considerations are for the Chief Executive/Chief Officer Employment Committee.

8.6 Employees who have applied for early retirement or voluntary redundancy will not be eligible to be employed by the Council for a period of 6 months from the date that they left the Council's employment, this includes employment by the Council's Employment Agency, External Agencies (including via Matrix), or by any other means.

8.7 Compensation payments for loss of office are considered in situations where the employment relationship is no longer tenable. The Council's approach is to treat each case on its individual merits, taking professional advice on the appropriateness, and ensuring that all payments represent value for money to the taxpayer. For Senior Managers such considerations are for the Chief Executive/Chief Officer Employment Committee.

8.8 In accordance with wider practice any severance package would not normally exceed an 18 month payback period. i.e. severance pay not greater than one and half year salary.

9. Lowest Paid Employees

9.1 The lowest paid persons employed under a contract of employment with the Council are employed on full time [37 hours] equivalent salaries in accordance with the minimum spinal column point currently in use within the Council's grading structure which is based on the National Joint Council pay scales.

9.2 As at 1st April 2017, this is £15,144 per annum (This includes the 'local living wage' supplement – See 9.5). The Council employs Apprentices who are not considered within the definition of 'lowest paid employees' as they are employed under defined training contract terms.

9.3 The relationship between the rate of pay for the lowest paid and Chief Officers is determined by the processes used for determining pay and grading structures as set out earlier in this policy statement.

9.4 As part of its overall and ongoing monitoring of alignment with external pay markets, both within and outside the sector, the Council will use available benchmark information as appropriate.

9.5 With effect from 1st April 2014 the Council introduced a 'local living wage'. The rate is currently £7.85 per hour. As a result, any salary point paid currently less than £7.85 per hour will have a 'local living wage' supplement added in order to ensure the employee concerned receives no less than £7.85 per hour (basic) pay. This does not apply to Apprentices/Trainees and will continue to apply until the Council considers a review is appropriate or that the National Minimum Wage or National Pay Scales exceed this hourly rate.

10. Relationship between: Remuneration of Senior Managers, and Remuneration of non-Senior Managers

10.1 The Council has no formal policy on the relationship between the remuneration of Senior Managers and other employee groups.

10.2 Will Hutton's report entitled Fair Pay in the Public Sector contained a recommendation that the Chief Executive's salary should not exceed 20 times that of the lowest pay in the organisation.

10.3 At Blackburn with Darwen, the pay multiple between the Chief Executive's pay and the lowest paid employee in the organisation (see above) is 10.1:1, and is therefore well within this recommended range.

10.4 The summary workforce data is shown below.

Highest Pay Grade	£139,488 - £152,415
Highest Pay	152,415.00
Lowest pay	15,144.00
Average Pay (per annum) – mean	£26,737
Average Pay (per annum) – median	£24,174
Pay Difference (between average & highest pay) – mean	£125,678
Pay Difference (between average & highest pay) – median	£128,241
Pay Multiple (ratio between average & highest pay) - mean	5.7:1
Pay Multiple (ratio between average & highest pay) – median	6.3:1
Pay Multiple (ratio between the lowest and the highest pay)	10.1:1
Data based on pay as at	01/04/2017

Notes

• The data is based on pay as at 1st April 2017 and also takes account of the Living Wage Supplement (£7.85 per hour – see para 9.5 above).

11. Trade Union Facility Time

11.1 The Trade Unions represented within the Local Authority are Unison, Unite and GMB.

11.2. The total number and FTE of Trade Union Representatives who devote at least 50 per cent of their time to union activity is 3 Representatives (3 FTE).

11.3. Total number (absolute number and full time equivalent) of other staff who are Union Representatives (including general, learning and health and safety representatives is 6 (0.21 FTE).

11.4. A basic estimate of spending on unions as a percentage of the total pay bill (calculated as the number of full time equivalent days spent on union activities multiplied by the average salary divided by the total pay bill) is 0.13%.

12. Publication

12.1 Upon approval by the full Council, this statement will be published on the Councils Website. The Policy will be updated and re-published as a minimum annually.

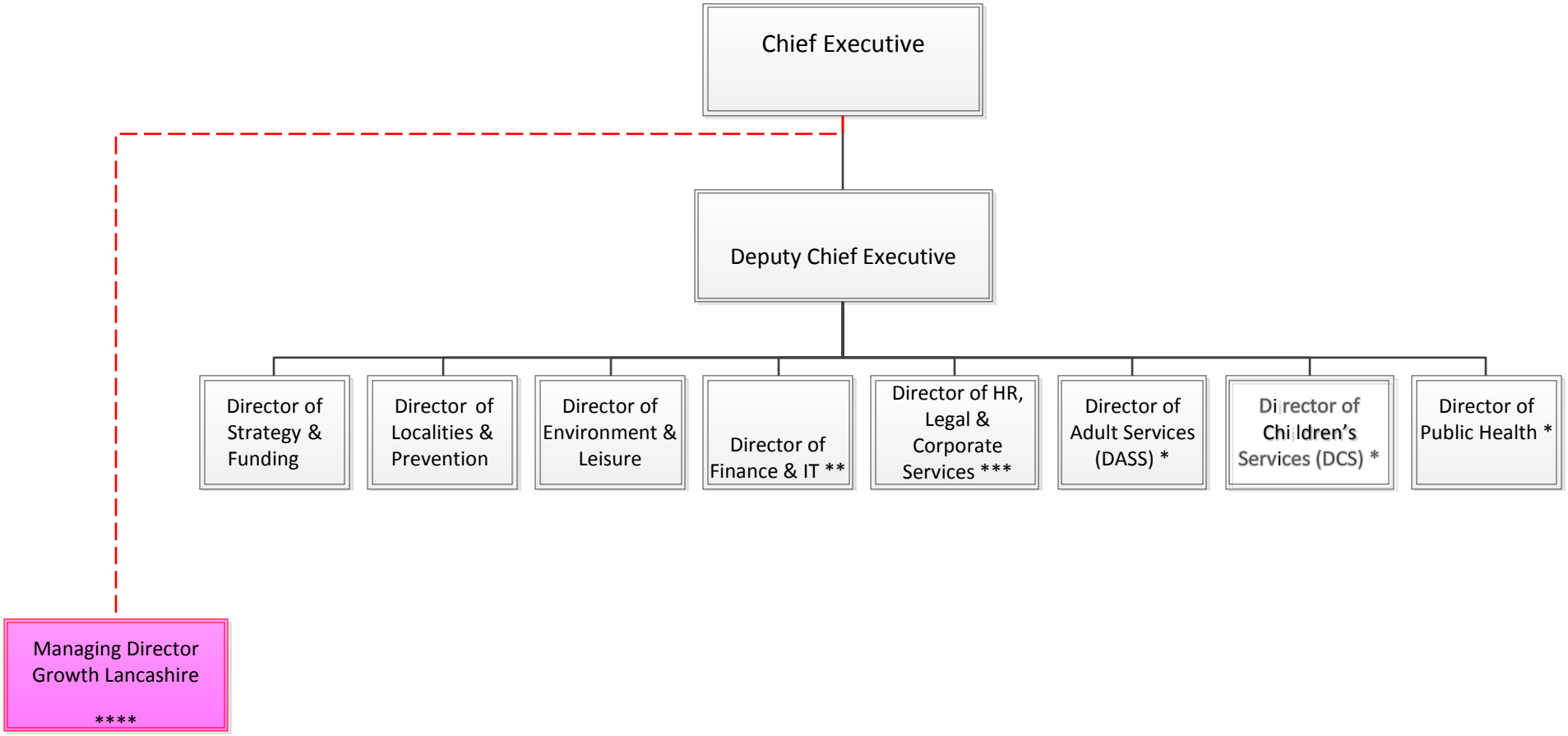
The Council's Annual Statement of Accounts will also include a note setting out:

- the number of employees whose remuneration in that year was at least £50,000 in brackets of £5,000;

- the name of each employee and details of their remuneration, for employees whose salary is at least £150,000;

- details of remuneration and job title of certain senior employees whose salary is between £50,000 and £150,000.

APPENDIX



*	**Statutory Directors with accountabilities to CEO**
**	**Section 151 officer with accountabilities to CEO**
***	**Monitoring officer with accountabilities to CEO**
****	**Joint post Funded by Lancashire Councils hosted by BWDBC**

REPORT OF:	**DIRECTOR OF FINANCE & IT**
TO:	**COUNCIL**
ON:	**27th FEBRUARY 2017**

SUBJECT : COUNCIL TAX FOR 2017/18

1. PURPOSE OF THE REPORT

1.1 The Council, in its role as billing authority, is required to set amounts of Council Tax before 11 March in the financial year preceding that for which it is set.

2. RECOMMENDATIONS

2.1 The Council is recommended to approve the draft resolution setting the Council Tax for 2017/18, as set out in Appendix 1, or as amended at the meeting.

3. BACKGROUND

3.1 The Council, as billing authority, is required to calculate a Council Tax requirement for the forthcoming year in accordance with regulations made under Section 31A of the Local Government Finance Act 1992, as amended (the Act). In setting its Council Tax requirement, the Council takes into account any funding from reserves, income it expects to raise and general funding it will receive from Government as part of the Local Government Finance Settlement.

3.2 The Council is also required to set a basic amount of Council Tax for the financial year 2017/18. The Council Tax is set on the basis of:

(a) The precept on the Collection Fund issued by the Police and Crime Commissioner for Lancashire.

(b) The precept on the Collection Fund issued by the Lancashire Combined Fire Authority.

(c) The Borough Council's precept on the Collection Fund, which is dependent on two factors:

(i) its council tax requirement, and
(iv) the precepts issued by the seven Parish / Town Councils.

These are discussed in more detail later in the report.

4. RATIONALE

4.1 To ensure that sufficient Council Tax is generated to meet all precepts.

5. KEY ISSUES

5.1 The Council Tax Requirement for 2017/18, together with the basic amount of Council Tax in relation to Band D properties for that part of the Borough having no Parish Councils are calculated as follows:

	£M
Council's proposed net expenditure	125.740
Add: Council's share of estimated surplus on the Council Tax Collection Fund	(0.081)
	125.659
Less: General government grant funding	- 59.918
Retained business rates income	- 18.836
Borough Council's Council Tax Requirement	46.905
Council Tax Base:	***33,911.43***
Council Tax at Band D	***£1,383.15***

5.2 Parish / Town Council's Precepts

From 1 April 2013 local council tax support schemes replaced council tax benefit in England. As a result the council tax base is reduced where a dwelling is in receipt of council tax support in a similar manner to other council tax discounts. This reduction in the tax base reduces the amount of council tax income that can be raised for the Borough as a whole, and for each parish area. In order to mitigate the effects of any reduction in tax base, the Council will again make a grant payment to make up the shortfall.

The Parish / Town Councils have each submitted their funding requirement, as detailed in Appendix 2. Members should be aware that the Parish Council precepts form part of the Council's expenditure for the purposes of the Council Tax i.e. the Parish Precepts are added to the Council's Council Tax requirement and the payments to Parishes are met from the General Fund. Consequently, there is no adjustment to it, even though the Council may collect more or less from the Parish by way of Council Tax.

The average of the Parishes element of the Council Tax is calculated as follows:

Total Parish Requirement	£181,180.96
Less: Grants paid by Borough Council	£27,336.50
Total Parish Precepts	£153,844.46
Council Tax Base:	**33,911.43**
Average Parish Council Tax at Band D	**£4.54**

In accordance with Section 31B of the Act, the basic amount of Council Tax for the year, including Parish precepts, is £1,387.69 (i.e. £1,383.15 + £4.54).

5.3 Collection Fund

Members will note from the calculation shown in paragraph 5.1 above, that Blackburn's share of the surplus on the Council Tax Collection Fund is £80,712. Legislation requires that any such surplus or deficit must be reflected in the Council Tax calculation and, therefore, represents additional funds for the year

2017/18.

5.4 Major Precepting Authorities

On 10th February 2017, the Police and Crime Commissioner for Lancashire agreed a budget and an expenditure precept for the year 2017/18. The amount of precept due from Blackburn with Darwen Council has been set at £5,610,646, after an adjustment of £9,904 in respect of the precepting authority's share of the estimated Collection Fund surplus. This results in a Band D Council Tax of £165.45, an increase of 1.99%.

Lancashire Combined Fire Authority met on 20th February 2017, and agreed a budget and an expenditure precept for the year 2017/18. The amount of precept due from Blackburn with Darwen Council has been set at £2,221,199, after an adjustment of £3,999 in respect of the precepting authority's share of the estimated Collection Fund surplus. This results in a Band D Council Tax of £65.50, a Council Tax freeze.

The aggregate Council Tax calculation in relation to Band D properties for that part of the Borough having no Parish Councils, is as follows:

	£M
Borough Council's Council Tax Requirement	46.905
Lancashire Police Authority Precept	5.611
Lancashire Combined Fire Authority Precept	2.221
Total Council Tax requirement	**54.737**
Council Tax Base:	**33,911.43**
Aggregate Council Tax at Band D	**£1,614.10**

5.5 Having calculated the basic amount of Council Tax for a Band D property, the Council is then required to convert it into amounts for all Bands by applying the following proportions:

Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H
6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9

The Borough element of the Council Tax together with the amount calculated for each band by the major precepting authorities forms the aggregate Council Tax for each band.

For those parts of the Borough which have a Parish or Town Council, a higher tax is levied to finance the Parish or Town Council Precept as well. It follows therefore that the Borough will have 64 different Tax Rates i.e. 8 bands for 8 areas (7 Parish or Town Councils and the area of the Borough having no Parish), and these are shown in detail on the attached draft resolution.

5.6 Draft Resolution

The draft resolution for setting the Council Tax is set out in Appendix 1 to this report. The elements which form the Council Tax calculation, as detailed in paragraphs 5.1 to 5.6 above, are:

- the "basic amount" of Blackburn's element of the Council Tax for 2017/18 is £1,387.69.
- the average of the Parishes element (£4.54) is then deducted to give the

Council Tax at Band D for those parts of the Borough not having a Parish Council (£1,383.15).

- the calculation for all other Bands then follows e.g. Band A is 6/9ths (66.67%) of Band D, Band H is 18/9ths (200%) of Band D.

6. POLICY IMPLICATIONS

The policy implications from this report are contained within the Budget Strategy.

7. FINANCIAL IMPLICATIONS

The financial implication arising from the proposed recommendations of this report have been incorporated into the Budget Strategy.

8. LEGAL IMPLICATIONS

Section 30 of the Local Government Finance Act 1992 provides that the amounts set for each band will be the aggregate of the Borough element for each band calculated under Section 36 and the amount calculated for each band by the major precepting authorities. The Council Tax must be set before 11 March in the financial preceding that for which it is set.

Under the Local Government (Standing Orders) (England) (Amendment) Regulations 2014, which came into force on 25 February 2014, the Council is required 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.

9. RESOURCE IMPLICATIONS

None as a direct consequence of this report.

10. EQUALITY IMPLICATIONS

The decisions to be taken do not change policy and do not require any further consideration in respect of equality issues.

11. CONSULTATIONS

The Council has consulted with its residents, business community, partners and other stakeholders throughout the Council Tax setting process.

Chief Officer/Member	Louise Mattinson, Director of Finance & IT – Ext. 5600
Contact Officer:	Karen Moore, Senior Finance Officer – Ext. 5929
Date:	20th February 2017
Background Papers:	Budget documentation and reports previously issued

Appendix 1

Blackburn with Darwen Borough Council

Draft Council Tax Resolution 2017/18 – Finance Council, 27 February 2017

The Council is recommended to resolve as follows:

1. That it be noted that on 30th January 2017, the Council calculated the Council Tax Base for the year 2017/18 in accordance with regulations made under Section 31B(3) of the Local Government Finance Act 1992, as amended (the Act):

   a) 33,911.43 being the Council Tax Base for the whole of the Council area (Item T in the formula in Section 31B of the Act); and

   b) for dwellings in those parts of its area to which a Parish precept relates, as detailed in Appendix 2.

2. That the following amounts be calculated for the year 2017/18 in accordance with Sections 31 to 36 of the Act:

   a) £392,201,388 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(2) (a) to (f) of the Act taking into account all precepts issued to it by Parish Councils.

   b) £345,142,900 being the aggregate of the amounts which the Council estimates for the items set out in Section 31A(3) (a) to (d) of the Act.

   c) £47,058,488 being the amount by which the aggregate at 2 (a) above exceeds the aggregate at 2 (b) above, calculated by the Council, in accordance with Section 31A(4) of the Act, as its Council Tax requirement for the year. (Item R in the formula in Section 31B of the Act).

   d) £1,387.69 being the amount at 2 (c) above (Item R) divided by the amount at 1(a) above (Item T), calculated by the Council, in accordance with Section 31B of the Act, as the basic amount of its Council Tax for the year (including Parish precepts).

   e) £153,844.46 being the aggregate amount of all special items (Parish precepts) referred to in Section 34(1) of the Act (see Appendix 2).

   f) £1,383.15 Being the amount at 2 (d) above less the result given by dividing the amount at 2 (e) above by Item T (1 (a) above), calculated by the Council, in accordance with Section 34 (2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no Parish precept relates.

3. That it be noted that for the year 2017/18 the Police and Crime Commissioner for Lancashire and Lancashire Combined Fire Authority have issued precepts to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, as indicated in the tables below.

4. That the Council, in accordance with Sections 30 and 36 of the Local Government Finance Act 1992, hereby sets the aggregate amounts shown in the tables below as the amounts of Council Tax for the year 2017/18 for each part of its area and for each of the categories of dwellings.

a) Blackburn with Darwen Borough Council

Part of the Council's Area	Valuation Bands							
	A	B	C	D	E	F	G	H
Eccleshill Parish	£938.76	£1,095.22	£1,251.68	£1,408.14	£1,721.06	£2,033.98	£2,346.90	£2,816.28
Livesey Parish	£927.35	£1,081.90	£1,236.46	£1,391.02	£1,700.14	£2,009.25	£2,318.37	£2,782.04
North Turton Parish	£932.76	£1,088.22	£1,243.68	£1,399.14	£1,710.06	£2,020.98	£2,331.90	£2,798.28
Pleasington Parish	£925.97	£1,080.30	£1,234.63	£1,388.96	£1,697.62	£2,006.28	£2,314.93	£2,777.92
Tockholes Parish	£944.94	£1,102.43	£1,259.92	£1,417.41	£1,732.39	£2,047.37	£2,362.35	£2,834.82
Yate and Pickup Bank Parish	£936.85	£1,093.00	£1,249.14	£1,405.28	£1,717.56	£2,029.85	£2,342.13	£2,810.56
Darwen Town Council	£930.99	£1,086.16	£1,241.32	£1,396.49	£1,706.82	£2,017.15	£2,327.48	£2,792.98
All other parts of the Council's area	£922.10	£1,075.78	£1,229.47	£1,383.15	£1,690.52	£1,997.88	£2,305.25	£2,766.30

b) Major Precepting Authorities

Precepting Authority	Valuation Bands							
	A	B	C	D	E	F	G	H
Lancashire Police Authority	£110.30	£128.68	£147.07	£165.45	£202.22	£238.98	£275.75	£330.90
Lancashire Combined Fire Authority	£43.67	£50.94	£58.22	£65.50	£80.06	£94.61	£109.17	£131.00

c) Aggregate Council Tax

Part of the Council's Area	Valuation Bands							
	A	B	C	D	E	F	G	H
Eccleshill Parish	£1,092.73	£1,274.84	£1,456.97	£1,639.09	£2,003.34	£2,367.57	£2,731.82	£3,278.18
Livesey Parish	£1,081.32	£1,261.52	£1,441.75	£1,621.97	£1,982.42	£2,342.84	£2,703.29	£3,243.94
North Turton Parish	£1,086.73	£1,267.84	£1,448.97	£1,630.09	£1,992.34	£2,354.57	£2,716.82	£3,260.18
Pleasington Parish	£1,079.94	£1,259.92	£1,439.92	£1,619.91	£1,979.90	£2,339.87	£2,699.85	£3,239.82
Tockholes Parish	£1,098.91	£1,282.05	£1,465.21	£1,648.36	£2,014.67	£2,380.96	£2,747.27	£3,296.72
Yate and Pickup Bank Parish	£1,090.82	£1,272.62	£1,454.43	£1,636.23	£1,999.84	£2,363.44	£2,727.05	£3,272.46
Darwen Town Council	£1,084.96	£1,265.78	£1,446.61	£1,627.44	£1,989.10	£2,350.74	£2,712.40	£3,254.88
All other parts of the Council's area	£1,076.07	£1,255.40	£1,434.76	£1,614.10	£1,972.80	£2,331.47	£2,690.17	£3,228.20

Appendix 2

Town and Parish Council Precepts

	2016/17			2017/18				Council Tax Increase / (Reduction)
Parish / Town Council	Tax Base	Precepts £	Council Tax Band D £	Tax Base	Precepts £	Grant £	Council Tax Band D £	*CT Band D 17/18 less 16/17* **£**
Eccleshill Parish	92.55	2,328.00	25.15	93.16	2,328.00	413.50	24.99	(0.16)
Livesey Parish	1,851.65	14,629.00	7.90	1,859.20	14,629.00	1,371.00	7.87	(0.03)
North Turton Parish	1,668.45	28,310.00	16.97	1,693.33	27,069.00	1,241.00	15.99	(0.98)
Pleasington Parish	256.00	1,450.00	5.66	249.72	1,450.00	0.00	5.81	0.15
Tockholes Parish	208.75	7,018.52	33.62	211.13	7,233.46	146.00	34.26	0.64
Yate and Pickup Bank Parish	133.23	3,040.00	22.82	137.35	3,040.00	260.00	22.13	(0.69)
Darwen Town Council	7,258.30	98,095.00	13.51	7,353.32	98,095.00	23,905.00	13.34	(0.17)
TOTAL / AVERAGE	**11,468.93**	**154,870.52**	**4.64**	**11,597.21**	**153,844.46**	**27,336.50**	**4.54**	**(0.10)**