Finance Council

Monday, 26 February 2018
18:00
Council Chamber, Blackburn Town Hall,

AGENDA

PART I: ITEMS FOR CONSIDERATION IN PUBLIC

1	**Chief Executive to read the notice convening the meeting**	
2	**Prayers by the Mayor's Chaplain**	
3	**Apologies**	
4	**Minutes of the Council Forum Meeting held on 25th January 2018**	
	MINUTES Council Forum January 2018	**5 - 14**
5	**Declarations of interest**	
	If a Member requires advice on any items involving a possible Declaration of Interest which could affect his/her ability to speak and/or vote he/she is advised to contact Phil Llewellyn at least 24 hours before the meeting	
	DECLARATIONS OF INTEREST FORM	**15 - 16**
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 23rd February 2018.

Date Published: Friday, 16 February 2018
Harry Catherall, Chief Executive

COUNCIL FORUM
Thursday 25th January 2018

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

RESOLUTIONS

38 Notice Convening Meeting

The Chief Executive read the notice convening the meeting.

39 Apologies for Absence

Apologies for absence were submitted on behalf of Councillors Akhtar P, Brookfield, Casey, Hollings, Johnson, Maxfield, Hussain F, Slater Ja, Pearson, Entwistle, Davies and Wright.

40 Minutes of the Policy Council Meeting held on 7th December 2017

RESOLVED – That the Minutes of the Policy Council meeting held on the 7th December 2017 be agreed as a correct record.

41 Declarations of Interest

Declarations of Interest were received as follows (Agenda Item 12):

Councillors Fazal, Groves, Jan-Virmani, Khonat, Mahmood, McGurk, Mulla, Talbot, Taylor, Whittle, Connor, Hardman and Marrow.

The Chief Executive reminded those Councillors that had declared an interest that they would need to leave the room ahead of consideration of Agenda Item 12 – Local Council Tax Support Scheme.

42 Mayoral Communications

The Mayor updated Council Forum on recent activities and events, in particular a number of school visits.

The Mayor reminded Councillors that the Mayor's Ball would be held on Friday

16th March 2018 at Ewood Park and encouraged all Members to attend.

43 Council Forum

The Chief Executive advised that one question had been received from members of the Public under Procedure Rule 10 as follows:

From Asif Mahmud to Councillor Mohammed Khan, Leader of the Council:

Following this week's controversial Panorama programme about a segregated Blackburn, would the council respond to my following question at the full council meeting on Thursday 25/1/18.

Panorama revisited Blackburn after 10 years to see if 'segregation' had improved. The programme received national coverage and focused its attention on Blackburn. The good folk of Blackburn are greatly concerned about the image Blackburn is being portrayed as.

Many of the points raised in the programme highlighted the acute segregation between the 'British Asian' and 'British White' communities with regards to housing, education and socially. The Cantle and Casey reports coupled with the 2011 census data clearly support the view, segregation is a serious problem and needs addressing.

The issue of segregation needs to be tackled head on and so far, central and local government have either taken a cack handed approach or merely ignored the issue.

It is abundantly clear to me that there is segregation in the town, and whilst the council has to accentuate the positives of the town, they also have a duty to address the issue of segregation. Segregation has lasting adverse impact on all areas of life for those affected.

Would the council and its elected officials tell me and the wider public, whether it acknowledges the issue of segregation and what steps if any, it has taken, is taking and plans to undertake to address this serious issue.

We can't ignore any longer!

Councillor Mohammed Khan gave a response to the question and supplementary question arising, advising that the Council, in partnership with

all sectors and the local community, continued to deliver initiatives and were working hard to address issues. The Leader referred to the negative slant that the Panorama programme portrayed, and the lack of acknowledgement of the ongoing work to improve social integration. The Leader referred to the report on the Social Integration Strategy 2018-20 which was an agenda item later in the meeting.

44 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

This Council is extremely disappointed, on behalf of its residents that the Government is continually choosing to ignore the plight of children, families and adults needing our support.

The Association of Directors of Children's Services, the Local Government Association and others have repeatedly urged the government to urgently address the deepening funding gap facing children's services, expected to be £2bn by 2020. The Government has again failed to listen to and address the continuing funding gap for children's and adult social care.

National bodies representing each of these services have repeatedly, and loudly, warned of the serious consequences of the Government ignoring the funding pressures facing Councils like ours.

Both adults and children's services also rely on the financial sustainability of other services our Council provides. The only way to protect the vital services which care for the elderly, the disabled, and to protect children and support families is for central Government to invest additional new money.

As a result of this Government's continuing underfunding of these services, our ability to invest in the preventative aspects in both these services is severely diminished. This is leading nationally to children and families entering the child protection system in record numbers and the elderly and disabled not receiving appropriate and necessary care.

This Council believes the Government needs to provide Councils with a long term, sustainable solution, this is urgently needed to prevent us from becoming another "blue light" service. To give Councils the resources they need to provide the support that all these groups need, when they need it, is the only solution.

Within a system that is already struggling to cope with unprecedented levels of demand, and the reduction in general Government support to our Council, this is becoming impossible. The alternative means risking more and more families and individuals reaching a critical stage where Councils have no choice but to intervene to keep everyone safe.

Councils, national representative bodies, charities and care providers have repeatedly warned of and continue to warn of the serious consequences of funding pressures on all who use our services, their carers and the provider market.

It is fundamentally unfair of the Government to shift the burden of tackling a national funding crisis onto Councils and their residents. In particular the Adult Social Care Council Tax Precept policy has a vastly different effect in different areas as authorities with a lower tax base are not be able to raise as much income as those authorities with a higher tax base. In addition, the ability to raise and collect Council tax is not related to need.

This Council calls upon the relevant Ministers along with our local MP's to address the very significant issues both our own and other Councils are facing in protecting our most vulnerable children and adults and for the Government to face up to its own Duty of Care as we as a local Council are expected to do.

Mover Vicky McGurk

Seconder Julie Gunn

Following debate on the Motion, there then followed a Vote on the Motion.

RESOLVED - That the Motion be carried.

MOTION 2

This Council is concerned at the lack of involvement of Members in the allocation of section 106 monies in local areas. It asks the Executive Member to draw up a scheme that will involve local Members in the process of determining the use of these monies.

Mover David Foster

Seconder Karimeh Foster (in the absence of Councillor Roy Davies)

Following debate on the Motion, there then followed a Vote on the Motion.

RESOLVED – That the Motion be lost.

45 Ofsted Inspection of services for children in need of help and protection, children looked after and Care Leavers

Members received an update with regard to the Council's recent Ofsted inspection, completed as part of Ofsted's Single Inspection Framework (SIF) between 25th September and 19th October 2017.

Inspectors judged the following areas:

- Children's Services overall **(good)**
- The experiences and progress of children who need help and protection **(requires improvement)**
- The experiences and progress of children looked after and achieving permanence **(good)**
    - Adoption performance **(good)**
    - The experience and progress of care leavers **(good)**
- Leadership, management and governance **(good)**

There was a separate judgement for the Local Safeguarding Children Board, which was also judged to be good.

Nine recommendations had been made in respect of Children's Social Care and three recommendations for the Local Safeguarding Children Board (LSCB); more detail concerning these recommendations was contained in section 5 of the report. The Department had developed an action plan to address each of these recommendations.

The judgement put the Council in the top third of local authorities nationally and only six out of 23 in the North West to have this rating.

The thanks of the Council were passed to all involved in work around the inspection, including Staff, Members, Young People and Foster Carers.

RESOLVED - That Members:

- Note the findings of the Ofsted inspection, including the recommendations made;
- Note the four inspection frameworks under which the Council continues to be regulated by Ofsted; and
- Note that the action plan developed in response to this inspection will be subject to Scrutiny review.

46 Social Integration Strategy 2018-20

Council Forum received a report containing recommendations relating to the Social Integration Strategy 2018-20.

The report reflected that the Borough was a vibrant and diverse place, made up of different races, cultures, beliefs and attitudes. The people, location, character and shared assets made the Borough a great place to live, work and visit. The Council had been nationally recognised for its work over many years. The strategy was embedded in other key policies across the Council and given its importance, a social integration strategy had been developed to raise the profile and prominence of a key Council priority.

The vision was for all communities to feel part of the Borough by playing a greater part in civic life, and in accessing leisure, culture and sport opportunities and for residents to have shared values and aspirations - to want for others what they would want for themselves and their families.

The strategy was underpinned by the facilitation, enablement and encouraging of linking opportunities, understanding and respect in communities and growing the local economy and skills agenda.

RESOLVED – That the Council:

a) Note the contents of the report and adopt the strategy;
b) Delegate authority to the Chief Executive in consultation with the leader to co-design/deliver a two-year action plan; and
c) Receive a report on progress and achievements, at the end of the two-year cycle.

47 2018/19 Provisional Local Government Finance Settlement

A report was submitted which updated the Council on the 2018/19 Provisional Local Government Finance Settlement.

The provisional Local Government Finance Settlement was announced by the Secretary of State Communities and Local Government, Sajid Javid MP in an oral statement to the House of Commons on 19th December 2017.

The announcement set out the provisional allocations for 2018/19 which had been originally announced in December 2015 as part of the 4 year settlement offer which the Council agreed to accept at Council Forum in October 2016.

The publication of the provisional settlement on 19th December 2017 marked the start of the consultation which ended on 16th January 2018 and to which the Council had submitted a response. It was expected that the final 2018/19 settlement would be laid before the House of Commons for approval in February.

The report provided a brief summary of the key points within the settlement, with specific focus on those funding streams of particular relevance to the Council.

RESOLVED – That the Council note the key points contained within the provisional settlement which impact upon the authority and which will be considered and incorporated into the financial reports to be presented to Finance Council on 26th February 2018.

Ahead of consideration of the next item, Local Council Tax Support Scheme 2018/19, Members who had declared interests left the room.

48 Local Council Tax Support Scheme 2018/19

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 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.

Full Council had confirmed in previous years that this scheme would continue to apply. The report fulfilled the Council's obligation to consider the local scheme each financial year and formally agree the provision for 2018/19.

In preparation for setting the budget for 2018/19, the Council was obliged to formally continue the scheme already agreed or make any adjustments prior to 1st February 2018. The report sought to fulfil the necessary legal requirements and confirm Blackburn with Darwen BC's Council Tax Support scheme for 2018/19.

It was proposed that the Council Tax Support scheme for 2018/19 was amended as follows:

Universal Credit

The notices received from the Department of Work and Pensions regarding claimants of Universal Credit would now be considered as an acceptable claim form for the Council Tax Support scheme. In order to receive this notice, the claimant must have already stated to the Department of Work and Pensions an intention to claim Council Tax Support. This change would improve the current application process and reduce barriers to customers claiming the support. In addition, the time taken to award the entitlement would be reduced substantially.

Uprating

In each financial year all claim types were amended to take into account any central government changes known as 'uprating'. In line with previous years, these changes would be made prior to the annual billing process in March 2018.

RESOLVED –

a) That the contents of the report are noted;
b) That the Localised Council Tax Support Scheme that was approved by Council in January 2017 is continued for the financial year 2018/19, and;
c) That any subsequent technical amendments to the Council Tax Support Scheme that may be required following legislative changes are delegated to the Director of Finance & IT in consultation with the Executive Member, Resources.

Those Members who had declared interests and left the room before consideration of the previous agenda item now re- joined the meeting.

49 <u>Report of the Policy and Corporate Resources Committee</u>

Council Forum received the latest report from the Policy and Corporate Resources Committee.

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

50 Reports of the Executive Members with Portfolios

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

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

51 Questions Received from Members under Procedure Rule 11

No questions had been received from Members under Procedure Rule 11.

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: **26th FEBRUARY 2018**

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:	**26th FEBRUARY 2018**

SUBJECT : TREASURY MANAGEMENT STRATEGY, PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION POLICY 2018/19

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 2018/19, including Treasury Management Indicators, as outlined in Appendix 1;

(b) the proposed Prudential Indicators for 2018/19, 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 adopted CIPFA's 2011 *Code of Practice on Treasury Management in the Public Services* and associated Guidance Notes. The proposed Treasury Management Strategy at Appendix 1 complies with that, and with the 2010 DCLG (Department of Communities and Local Government) Investments Guidance, which is now within the authority of the newly formed Ministry for Housing, Communities and Local Government (MHCLG).

3.2 CIPFA also issues the *Prudential Code for Capital Finance in Local Authorities,* to support local authorities in taking capital investment decisions. The requirements of the 2011 Prudential Code have been followed in determining a range of proposed Prudential Indicators for 2018/19, as outlined in Appendix 2.

3.3 CIPFA issued new Treasury and Prudential Codes late in 2017, and the MHCLG issued new Investment and MRP Guidance in February 2018, but it has been made clear that due to the timing of this, it is not expected that 2018/19 Strategies are required to comply with this new guidance. The full impact of and inter-relationship between new CIPFA and MHCLG guidance is still to be determined and will be addressed during 2018/19. At this stage, this is not expected to have a material financial impact on the Council's capital and treasury strategies, but will change how such matters are monitored and reviewed.

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 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, the security of capital and the liquidity of investments.

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 2018/19 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 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, on the basis of making a prudent provision. The Minimum Revenue Provision (MRP) proposals set out in Appendix 3 comply with existing regulatory requirements.

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:	26th Feb 2018
Background Papers:	Capital programme 2018-2021 and associated papers

Appendix 1

TREASURY MANAGEMENT STRATEGY 2018/19

1. Introduction

The CIPFA Treasury Management Code requires 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 (DCLG), which has recently become the Ministry for Housing, Communities and Local Government (MHCLG). 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 MHCLG 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 2018/19 will continue to be the UK's progress in negotiating a smooth exit from the European Union. The domestic economy has remained relatively robust since the outcome of the referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but may also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

US economic growth seems more assured, and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy. There is still a potential for political uncertainty, particularly in Germany and Italy, to continue to impact on financial markets, and the unwinding of "super-low" interest rates may also generate concerns in financial markets over the sustainability of economic growth.

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.

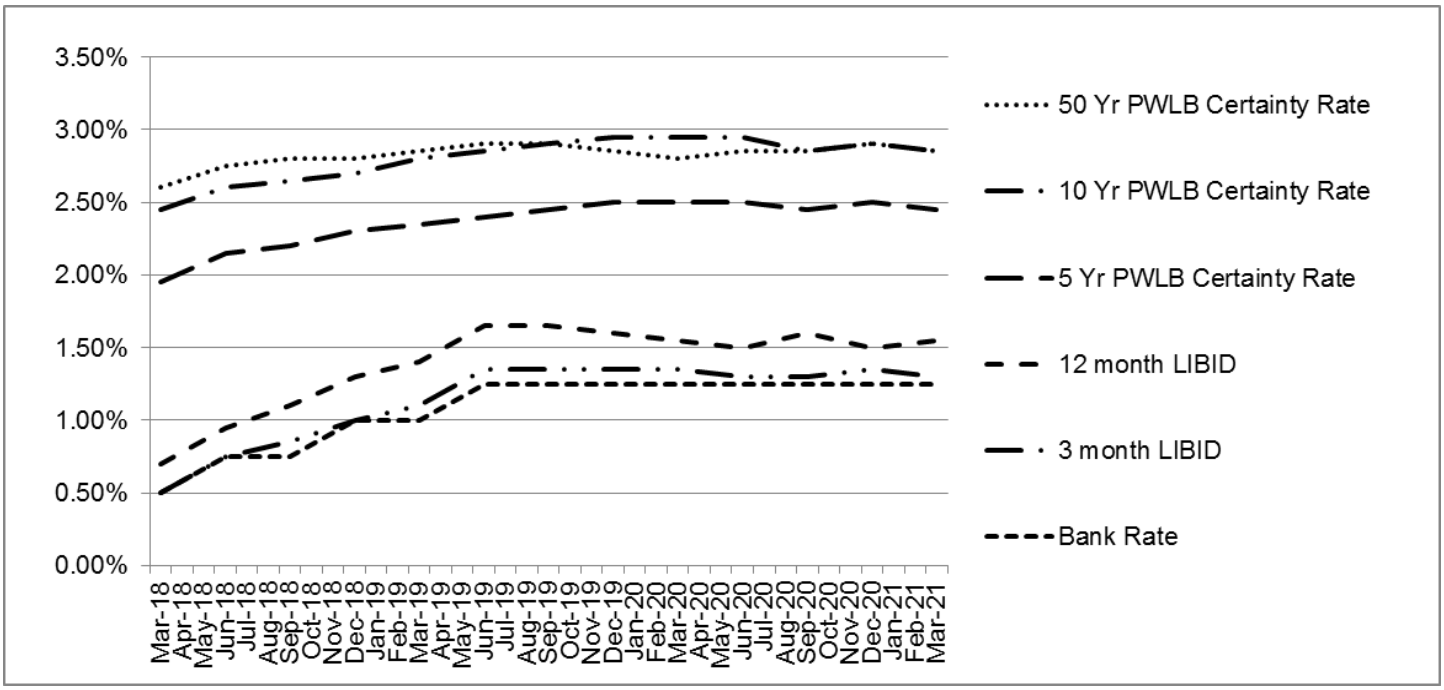
Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. Therefore the credit 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

After the 0.25% increase in November 2017, it was initially anticipated that the UK Bank Rate would remain at 0.50% during 2018/19. However, recent indications from the Bank of England suggest there will probably be further increases in rates earlier than previously anticipated, but that any increase would be of a very limited nature.

The Council's Treasury advisers, Arlingclose, have projected that gilt yields, (i.e. the price paid by the Government for borrowing), and Public Works Loan Board (PWLB) borrowing rates, will have 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 2018/19, it was assumed that:

- any new investments would be at low rates, averaging around 0.3%,
- short-term borrowing would be available at an average of around 0.6% and
- new long-term loans would 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 January 2018 was as follows:

	Principal Amount £m	Interest Rate %
External Debt		
Debt directly managed by Blackburn with Darwen BC		
Short Term borrowing - maturing in 2017/18	21.2	0.33%
Short Term borrowing - maturing in 2018/19	39.0	0.44%
PWLB maturing in 2018/19 or later	104.6	4.19%
Market Debt maturing in 2018/19 or later	20.8	4.84%
Total directly managed by Blackburn with Darwen BC	**185.6**	**3.03%**
Other Long Term Liabilities: Debt managed by LCC Lancashire County Council	15.5	2.00%
Other Long Term Liabilities: Private Finance Initiative (PFI) Liabilities	67.1	9.09%
Total Gross External Debt	**268.2**	**6.58%**
Investments - maturing in 2017/18	19.8	0.37%
Total Investments	**19.8**	**0.37%**
Net Debt	**248.4**	**7.08%**
Net Debt excluding LCC/PFI Debt	***165.8***	***3.35%***

3.2 Expected Changes

No long-term borrowing is included in current cash flow forecasts across the remainder of 2017/18 and across 2018/19. The already high level of short-term borrowing will increase 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 £180 million by 31st March 2018 and to over £190 million by 31st March 2019.

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 2018/19 is £6.1 million (including the interest element of payments to LCC for debt managed on our behalf), reflecting:

(a) £5.6 million interest payable, at an average interest rate of around 4%, on the long-term debt portfolio (forecast to average £138 million over the year),
(b) up to £0.5 million for short-term borrowing, at interest rates of around 0.6%.

The budget for investment income in 2018/19 is around £75,000, based on an average investment portfolio of circa £25 million, and interest rates averaging 0.3%.

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 £15 to £35 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 MHCLG 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 2018/19, 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, Arlingclose, 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 2018/19

4.4.1 Approved Investment Counterparties

It is proposed to set the criteria at essentially the same levels as were agreed for 2017/18, with two changes – the withdrawal of investment limits for counterparties rated BBB+ or BBB (other than the Council's current account banker, as necessary) and a tightening of the maximum duration of non-specified investments with other local authorities.

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 up to 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
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
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	-	-	£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	-	4 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 MHCLG 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 below BBB, but no lower than BBB- will be restricted to overnight deposits with the Council's Current Account bank, if applicable. 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.

In addition to investment balances, the Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be monitored and minimised, so far as practicable. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

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 government 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.

4.4.8 Non-Treasury Investments

Although not classed as treasury management activities, and therefore not covered under the CIPFA and MHCLG guidance used to frame this Strategy, the Council may also purchase property for investment purposes, and may make loans and investments for service purposes.

Such loans and investments will be subject to the Council's normal approval processes for revenue and capital spending, and will not necessarily comply with this Treasury Management Strategy.

4.5 Investment Strategy for 2018/19

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.
In the context of the borrowing strategy, it is likely that most investments will continue to be in instant access and short term deposits, to manage the Council's liquidity.

The counterparty limits set out in section 4.4.1 above, do allow for a wider range of investment opportunities to be taken up than have been used by the Council to date. Should the circumstances arise under which this would be appropriate, this would allow an increased 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 Lancashire County Council (LCC) and that related to Private Finance Initiative (PFI) arrangements, the Council currently holds circa £125 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 decrease from £215.4 million at 31st March 2017 to £213.1 million at 31st March 2018, and then to increase to £218.5 million by 31st March 2019. This is because in 2017/18 capital spend financed from borrowing is forecast to be less than the sum of MRP and capital receipts used to repay debt, whereas in 2018/19 the reverse is likely to be the case.

CIPFA's *Prudential Code* 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*** maximum additional **long-term** borrowing requirement for 2018/19 is:

	£M
Long Term Under–borrowing against CFR at 31st March 2018	89.2
Plus Projected increase in CFR in 17/18 and 18/19	3.1
Less Long Term Borrowing to date in 17/18	0.0
Plus Profiled debt repayments 17/18 and 18/19	6.6
TOTAL	**98.9**

However the Authority has been keeping 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, so it is not likely that anything like that level of new long term borrowing will be taken. The level of short-term borrowing, already significant, 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 £15.5 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. £10.5 M of these LOBOS have options during 2018/19, 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 Municipal Bonds Agency will be subject to a separate report to Executive Board.

5.3 Borrowing Strategy for 2018/19

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 2018/19. 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 2018/19, 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

The Council's external debt should not, except in the short term, exceed its total Capital Financing Requirement across the current and next three years.

	2017/18 £M	2018/19 £M	2019/20 £M	2020/21 £M
Total Capital Financing Requirement	**298.9**	**303.8**	**305.1**	**299.7**

Current gross debt is £268.2 M	£185.6 M	Blackburn with Darwen BC borrowing
	£15.5 M	managed by LCC
	£67.1 M	relating to PFI contracts

and gross debt is expected to remain below CFR during the forecast period.

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:

	2018/19 £M	2019/20 £M	2020/21 £M
Upper limit on **fixed** interest rate exposures	217.5	219.2	214.5
Upper limit on **variable** interest rate exposures	95.0	96.0	94.0

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 an 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	50%	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 2018/19, 2019/20, and 2020/21, starting 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:

	2018/19 £M	2019/20 £M	2020/21 £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

MHCLG 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 £319.5 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 MHCLG 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

Local authorities determine their own programmes for capital investment in fixed assets that are central to the delivery of quality public services. The Chartered Institute of Finance and Accountancy (CIPFA) Prudential Code provides 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. The Prudential Indicators proposed are based on the guidance in CIPFA's 2011 Prudential Code, with the impact of the new 2017 CIPFA Code to be further considered during 2018/19.

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 recommended in 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 2018/19

Estimates of Total Capital Expenditure to be Incurred

	2018/19 £M	2019/20 £M	2020/21 £M
Blackburn with Darwen Borough Council Capital Programme	30.3	28.5	10.8
Impact on Other Long Term Liabilities of assets acquired through PFI projects	0	0	0
Prudential Indicator for Total Capital Expenditure to be Incurred	**30.3**	**28.5**	**10.8**

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 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. 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.

	2018/19 £M	2019/20 £M	2020/21 £M
CFR relating to Blackburn with Darwen Borough Council capital programme	218.5	220.3	215.4
CFR relating to debt managed by LCC	15.6	15.3	15.0
CFR relating to Other Long Term Liabilities re assets acquired through PFI projects	69.7	69.5	69.3
Total Capital Financing Requirement	**303.8**	**305.1**	**299.7**

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 incremental cost of any additional, unsupported borrowing required for new schemes to be added to the programme is not expected to be material on the 2018/19 budgets and as such has will have negligible impact on Council Tax. All new proposals are subject to the Council's governance and financial regulations and are reported accordingly, identifying the revenue costs associated with such schemes as applicable.

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 Central Government funding available to fund the Council's revenue budget

	2018/19 £M	2019/20 £M	2020/21 £M
Net Revenue Stream	131.3	129.5	127.4

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

	2018/19	2019/20	2020/21
Main Programme capital financing costs as a proportion of Net Revenue Stream	13.93 %	14.62 %	15.65 %
BSF PFI capital financing costs as a proportion of Net Revenue Stream	4.87 %	4.89 %	4.92 %
Prudential Indicator for ratio of financing costs to Net Revenue Stream	**18.80 %**	**19.51 %**	**20.57%**

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.

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**
2018-19	224.2	85.3	309.5
2019-20	226.0	84.8	310.8
2020-21	221.1	84.3	305.4
	Authorised limit for borrowing	**Long Term Liabilities (LCC Debt & PFI Projects)**	**Authorised Limit for External Debt**
	£M	**£M**	**£M**
2018-19	234.2	85.3	319.5
2019-20	236.0	84.8	310.8
2020-21	231.1	84.3	315.4

Appendix 3

MINIMUM REVENUE PROVISION GUIDANCE AND PROPOSED POLICY

1. Introduction

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Council must approve an Annual MRP Statement each year, which states how it will calculate its prudent provision for MRP.

The Local Government Act 2003 requires the Council to have regard to the Government's current Guidance on Minimum Revenue Provision. The Guidance sets out a number of options for calculating MRP, but authorities retain flexibility over their determination of what is prudent. The broad aim of the Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The proposed methodologies set out below reflect the basic principles set out in the Guidance, along with some locally determined and prudent modifications to make the MRP more straightforward to calculate.

2. Proposed MRP Policy

The following MRP Policy is proposed, under Guidance issued by the Government.

Blackburn with Darwen BC Annual MRP Policy Statement for 2018/19

The Policy for 2018/19 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 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 charge the expenditure over the expected useful life of the relevant asset ("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 charging on a straight line basis over the asset life).

(c) *For finance leases and 'on-balance sheet' Private Finance Initiative (PFI) contracts* - to use the annuity variant of the Asset Life Method, using the annuity rates built into the financing arrangements for the contracts. This means that the MRP will relate to the estimated asset life and may not match the value written down each year against the balance sheet liability of the respective 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:	**26th FEBRUARY 2018**

SUBJECT: The Robustness of the 2018/19 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 2018/19, 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 2018/19 (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 departmental level.

5. FINANCIAL IMPLICATIONS

5.1 Robustness of the 2018/19 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). In developing the MTFS, the Council has been mindful of the consultations currently underway and those which have recently closed but have yet to report their findings, specifically;

- Fair Funding Review
- Business Rates Retention
- Adults Social Care Funding consultations and Green Paper

We are also cognisant of the work that is still in progress to significantly change the way Councils are funded from 2020 onwards. As such, whilst the strategy would normally extend to cover the 3 year period beyond the end of the budget year, i.e. to 2021/22, as for the MTFS presented in 2017, this MTFS has been limited to 2 rather than 3 additional years, i.e. to 2020/21, until more clarity is provided on the changes to the funding framework and mechanisms to be introduced by central Government. Announcements and direction on this are anticipated over the next 12 months.

The 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)
  - we have made assumptions relating to future levels of Government funding based on the information provided in the recent Local Government Finance Settlement, which reflects the Council's acceptance of the 4 year settlement for 2016/17 to 2019/20 back in October 2016
  - we have utilised demographic and trend data to project future levels of demand, given that demand in respect of adult social care and children's services are the biggest cost pressures and present the greatest financial risk to the Council at present

- 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 continues to closely monitor and instigate early action to meet both its immediate and medium term financial challenges. This approach has been effective in providing a level of resilience to address the Government's funding reductions over the period to 2019/20 and has encompassed 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,
    - the £15.0m savings programme developed during 2016/17 for implementation by the end of 2017/18
  - further savings options have been developed for implementation in 2018/19 and, for 2019/20 and beyond, a thematic savings review programme is in development covering digital, procurement, alternative service delivery models, Council Tax discounts and income, commercialisation and traded services.

- 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 2018 to 2021 of £72.9m 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 aids and adaptations through provision of disabled facilities grants
- in regeneration of the borough
- in facilitating housing and business growth
- in support of income generation and commercialisation opportunities
- in support of continued investment in IT services to underpin our 'digital first' approach to delivering efficiencies and in turn, cash savings
- in support of our accommodation review which again will drive efficiencies and savings through rationalisation and a more cost effective use of space

Before projects are allocated funding however, they are subjected to a rigorous business case approval process and detailed Member reports are produced in line with financial procedures as required.

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.

- other specific Boards and Groups such as the Growth Board, the Digital Board, the Workforce Review Board and the Commissioning and Procurement Board, who each meet regularly to oversee the sphere of activities within their specific remit.

- 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 these.

It must be recognised that given the significant reduction in resources over the past 8 years, and the resulting reconfiguration of the organisation and its services, the Council faces significant risks 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
- contractual obligations
- the challenging timescales in which to deliver the reductions required
- potential loss of skilled and experienced staff
- the development of free schools and academies and further education reforms

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

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

all present significant risk upon which it is impossible to model a longer term strategy without any degree of confidence in the underlying assumptions.

However, 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 the level of reserves that 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 the 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, future liabilities.

The calculation to support the 2018/19 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 that 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.

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 specific significant schemes or projects such as the revenue costs of implementation of the digital programme, those associated with the accommodation review and those to support business growth
- reserves to fund the cost of workforce review, reorganisation and the part year effect of delivering savings
- reserves specifically retained for service departments for example the Future Demand Reserve in respect of adult social care and children's services
- School balances

The current forecast for Earmarked reserves at 31st March 2018 comprises;

£10.12m - total reserves of Council Use

£15.48m – Other reserves (including Schools)

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:	26th February 2018
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 • Inflation is underestimated or cannot be contained within existing budgets • Cost increases e.g. large scale increases in gas and electricity	3,000
Savings In order to contain cost pressures, portfolios have developed 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 these through budget management at Director, Executive Member and Executive Board level, non-delivery presents 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 the reforms and changes are rolled out, there is a risk of 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**

	2018/19 £'000	2019/20 £'000	2020/21 £'000
Projected level of balances at start of each year	5,279	5,279	**5,279*
Budget proposals – contributions from (-) or to (+) balances	0	**0*	**0*
Balances estimated at end of each year	5,279	**5,279	**5,279*

***** as noted in Appendix E of the Revenue Budget 2018/19, Medium Term Financial Strategy and Capital Programme 2018-2021 Report, the budget gap of £4.9m in 2019/20 and £13.3m in 2020/21 do not reflect the savings to be realised through the programme of thematic reviews that will shortly commence across digital change, procurement, alternative service delivery models, income, commercialisation and traded services and also Council Tax (in respect of single person discount and empty homes). Whilst the areas for review have been identified and agreed, the business cases and programmes to underpin these are currently in development and the savings attributable have yet to be quantified in detail; until such time, it is assumed that the budget gap will be addressed through the application of both ear-marked reserves and through the unallocated, general reserve, the allocation of which will be determined over the course of 2018/19 and will be reported to Council.

With regards to the forecast budget gap of £13.3m in 2020/21, as noted in the following reports, reliance cannot be placed on the figures for this final year of the MTFS given the significant risks around the assumptions made, particularly given the lack of information provided by central Government in relation to future funding and the mechanisms for its distribution at this time including;

- Business Rates Retention and the future tariff and top-up system,
- the implementation of the Fair Funding Review,
- the future funding of adult social care and the potential integration of social care with health
- the future changes in the schools funding formula
- the uncertainty around the impact of Brexit

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 2018 £ 000's	Planned movements 2018/19 £ 000's	Balances estimated at 31 Mar 2019 £ 000's
Reserves held for discretionary use by the Council				
Specific project/ expenditure reserves	Revenue savings that have been earmarked for specific projects or purposes in future years	4,628	0	4,628
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	24	0	24
Support for Future Redundancy Costs	This reserve is to support future remodelling of services	1,706	0	1,706
Part Year Effect of Future Savings Plans	This reserve is to support the delivery of future budget reductions	1,242	0	1,242
Digital Programme	This reserve is to meet the costs and requirements of the Digital Programme	1,059	0	1,059
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	239	0	239
Highways Claims	This reserve is required to support anticipated future highway claims in respect of current and previous years	434	0	434
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
Arts Acquisition Fund	This fund was established so that new pieces of art can be purchased as and when they become available	14	0	14
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		**10,122**	0	**10,122**

Name	Purpose	Balances estimated at 1 April 2018 £ 000's	Planned movements 2018/19 £ 000's	Balances estimated at 31 Mar 2019 £ 000's
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	182	0	182
Turton Tower Charity	Funds held by the Council in its role as trustee for the charity	45	0	45
Local Safeguarding Children's Board Fund	This fund was established from specific contributions to be used to support the LSCB	156	0	156
Reserves held in relation to schools				
Dedicated Schools Grant - surplus	DSG received but not yet deployed to meet eligible expenditure	8,844	0	8,844
LMS Schools balances	Funds held by schools under a scheme of delegation	*6,253	0	*6,253
	TOTAL OTHER RESERVES	**15,482**	**0**	**15,482**

*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:	**26th February 2018**

PORTFOLIOS AFFECTED: ALL

WARDS AFFECTED: ALL

SUBJECT: Revenue Budget 2018/19, Medium Term Financial Strategy and Capital Programme 2018-2021

1. PURPOSE

To recommend to Finance Council the Budget Strategy and proposals for the Revenue Budget 2018/19, together with the Medium Term Financial Strategy (MTFS) and Capital Programme for 2018-2021.

2. RECOMMENDATIONS

2.1 To approve the proposals for the Revenue Budget for the financial year 2018/19 as outlined in this report and specifically;

2.1.1 To approve an increase in Council Tax rates of 2.99% (i.e. a weekly increase of £0.80 for Band D Council Tax payers and of £0.53 for Band A Council Tax payers)

2.1.2 To approve an additional increase in Council Tax rates of 3.0% to meet the costs of Adult Social Care (i.e. a weekly increase of £0.80 for Band D Council Tax payers and of £0.53 for Band A Council Tax payers)

2.1.3 To note the individual portfolio cash limit budgets for 2018/19 as set out in Appendix C

2.1.4 To note the work that is underway in developing a thematic savings plan (as outlined at **Section 7**) that will start to deliver part year savings in 2018/19 to offset any other emerging cost pressures in-year and/or replenish reserves ahead of more significant savings required from 2020/21.

2.1.5 To note the significant risks and uncertainty that underpin the assumptions contained within the MTFS for the financial year 2020/21, due to the lack of information that is yet to be provided by central Government including;

- the mechanisms for Business Rates Retention,
- the outcome of the Fair Funding Review and the resulting redistribution of resources,

- the Green Paper on Adult Social Care and the future plans for integration of health and adult social care and associated funding and
- the impact of Brexit

2.1.6 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 2018

2.1.7 To delegate authority for the agreement of hourly rates and contract changes for social care providers for 2018/19, 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 2018-2021 as outlined in **Appendix D** and **Section 8** of this report

2.3 To approve the draft Medium Term Financial Strategy 2018-2021, 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 the Local Living Wage and Chief Officer posts, to have effect for the year 2018/19 unless replaced or varied by the Council, as set out in **Appendix F**.

3. BACKGROUND

Like all councils, Blackburn with Darwen has been facing unprecedented financial challenges since the period of the central Government imposed policy of austerity began in 2010 due to very large reductions in funding combined with a steep increase in demand for public services.

In balancing the Council's finances to date, 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 have had to be scaled back,

Whilst Finance Council approved a balanced budget for 2017/18 and a Medium Term Financial Strategy (MTFS) for the period through to 2019/20 back in February 2017, this was predicated on some very challenging assumptions including;

- delivery of the balance of the £26.0m savings programme agreed in September 2014
- delivery of the balance of the £15.0m savings programme agreed in 2016/17, including workforce and commercial strategy reviews
- a general increase in Council Tax in each year covered by the strategy
- an increase in Council Tax to contribute to the escalating costs of adult social care through the application of the Adult Social Care Precept by a total of that recommended by central Government over the period 2017/18 to 2019/20.

However as 2017/18 has progressed, further pressures have emerged that were not built into the MTFS, including further rises in demand in both Adult Social Care and in Children's Services, with increases both in the volume of people using these services and in particular the complexity of service user needs, together with other cost increases due to legislative change within these services; 2017/18 has also seen increased demand pressures on highways and other cost pressures in relation to waste disposal.

To address these pressures we have used both earmarked and unallocated reserves, but as some of these additional costs are of a recurring nature, they require further support in 2018/19 and beyond and will need to be addressed through further savings, re-prioritisation of resources and from additional income.

In accepting the Government's offer of a 4 year funding settlement through to 2019/20, the figures included within the report for 2018/19 and 2019/20 are based on the latest data available and a set of reasonably firm assumptions, however the position is significantly less stable for 2020/21.

The Government has for some time been reporting its intention to fundamentally change the way in which Councils are funded with;

- a move to Business Rates Retention from 2020,
- a complete review and reset of the funding requirements of each council area through the "Fair Funding" review,
- the withdrawal of other specific government grants and
- a review of the funding of Adult Social Care.

However, the Government says that given the demands of Brexit, the development of this new approach has been significantly delayed.

As reported to Finance Council last year, our MTFS would normally extend for a period of 3 years beyond the end of the budget year, i.e. in this case, through to 2021/22, however given that the Government has still not shared any proposals for their intended approach, nor the mechanisms for calculating any local government finance settlement, the future funding arrangements beyond 2019/20 are impossible to plan for with any certainty. Therefore, in preparing this MTFS we have focused on the period to 2019/20 until more clarity is provided over the next 12 months. Whilst we have included figures for 2020/21 within this report, in the absence of any further information, we have assumed that the current financing arrangements will remain in place and we will therefore update Council on any changes to these assumptions as further information is provided to us during the course of 2018/19.

This paper sets out the Labour Group's proposed Revenue Budget, Capital Programme and associated Council Tax level for 2018/19 together with the MTFS for the period 2018-2021 based on a review of the existing assumptions and data to reflect the most current information available.

4. RATIONALE

It is a statutory obligation for the Council to set a balanced Revenue Budget for the financial year 2018/19.

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 statutory requirements and 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 Government's offer of a 4 year settlement in 2016/17 provided some clarity on which to base our MTFS for the period through to 2019/20. Having accepted this settlement, the Council is required to publish an Efficiency Plan based on savings plans and information contained within the Budget and MTFS; subject to approval of the attached 2018/19 Budget and MTFS 2018-2021, this report and the supporting documents will be published to meet this obligation.

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 a Government calculation and is an estimate of the core revenue funding available for local authority services, including Council Tax and locally retained Business Rates, with estimates of Council Tax income being based on the Government's assumption that councils will apply the maximum increases available to them for the year ahead;

Core Spending Power	2017/18	2018/19	Change	Who Pays
	£'m	£'m	£'m	
Settlement Funding Assessment (SFA)	63.9	60.7	-3.2	Govt
Council Tax Requirement	44.7	47.2	+2.5	CT Payers
Potential additional Council Tax from Adult Social Care Precept (cumulative amount within Council Tax from 2016/17)	2.2	3.8	+1.6	CT Payers
Adult Social Care Support Grant	0.8	0.5	-0.3	Govt
Improved Better Care Fund	4.3	5.9	+1.6	Govt
New Homes Bonus	1.5	1.2	-0.3	Govt
Compensation for under-indexing the business rates multiplier	0.6	1.0	+0.4	Govt
Total	**118.0**	**120.3**	**+2.3**	**CT Payers**

This calculation does not make any allowances for additional costs or reflect inflationary and demand pressures which are expected to be self-funded by the Council. The figure shows that Government support has fallen a further £1.8m whilst £4.0m must be raised from Council Tax Payers to meet their figure of spending power.

5.3 Settlement Funding Assessment (SFA)

Every 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 2018/19 (and provisional figures for 2019/20) which have been included within the Budget for 2018/19 and the MTFS.

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 for 2018/19 (with comparative figures provided for 2017/18 for information) is as follows;

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Settlement Funding assessment (SFA)	63.9	60.7	57.1	**54.8*
Funded by:				
Revenue Support Grant	22.3	17.8	13.3	**8.8*
Business Rate Baseline	41.6	42.9	43.8	**46.0*
Comprising				
- Business Rates retained by BwD	19.2	19.6	19.9	**21.1*
- Top-up funding provided by Government	22.4	23.3	23.9	**24.9*
Reduction in SFA		(3.2)	(3.6)	**(2.3)*

** The figures for 2020/21 have been estimated by the Council based on an assumption that SFA continues to reduce at a rate of approximately 5% per year*

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.

The Government had made clear its intention to phase out RSG in the move to 100% Business Rates Retention by 2020, however following the announcement in the provisional Local Government Financial Settlement in December 2017 that this was to be scaled back to 'up to 75% retention', it is now unclear whether the grant will be removed in its entirety or be replaced by some other form of funding in 2020/21. The assumption for the MTFS in 2020/21 is that, apart from the inflationary impact, the current arrangements will remain.

The reduction in the grant to date has been significant, from a figure of £49.6m 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 the 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 a national revaluation exercise (see **Appendix E - Section 5.4.1**) the total rates payable in the borough decreased with effect from 2017/18. As agreed at the time the Business Rates Retention mechanism was introduced, in order to ensure the impact of any revaluation is neutral on local authorities, the Government therefore increased the 'top-up' payment to the Council. Whilst this stabilises the level of funding, it does increase the Council's future reliance on Government funding.

As noted above, the Government is intending to increase the level of BRR by 2020 but progress towards this has been significantly delayed and the mechanisms determining how this will operate have still to be developed and consulted upon; this will significantly change the funding levels for every Council beyond that date. Further details in relation to 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. Those whose funding levels reduced following the introduction of the BRR scheme have received a 'top-up' payment from central Government to ensure that their share of Business Rates, plus the top-up, has kept their funding at the base-line level, albeit that this has been adjusted over time for growth and inflation.

5.4 Council Tax

Blackburn with Darwen has the second lowest Council Tax in Lancashire.

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.

Within the Financial Settlement for 2018/19, the Government announced an increase in the referendum cap for 2018/19 and 2019/20 from 2.0% to 3.0% and as such, has assumed within the SFA that the Council will apply the maximum Council Tax increase permissible without the need for a referendum, i.e. 2.99%.

The Government has made it clear that they wish for Councils to progress quickly towards becoming self-sufficient through the income they generate, of which Council Tax is the most significant source of income. This is difficult to achieve in Blackburn with Darwen given the profile of the properties that are chargeable to Council Tax across the borough which, unlike many other councils across the country, is significantly weighted towards those which generate a lower yield as the table below illustrates;

Number of Properties Chargeable to Council Tax								
Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	TOTAL
34,660	9,166	8,225	4,226	1,983	769	583	54	59,666
58.0%	15.5%	13.8%	7.0%	3.3%	1.3%	1.0%	0.1%	100.0%

5.5 Adult Social Care Precept

The Core Spending Power within the Financial Settlement for 2016/17 included an assumption that all authorities with responsibility for Adult Social Care would increase Council Tax in 2016/17 by an additional 2% without holding a referendum; this would be used specifically to assist in meeting expenditure on Adult Social Care functions. In 2017/18, the Government announced the option for Councils to continue to increase Council Tax through application of the precept, subject to a maximum increase of 3% in any one year and a total cap of 6% over the period 2017/18 to 2019/20; again the assumption was made within the Core Spending Power calculation of the Government that Councils would do so by the maximum amount within the shortest timeframe.

Given the scale of the mounting financial and demand pressures on adult social care services, the Council proceeded with the increase in 2016/17 and assumed a 6% increase over the 3 years through to 2019/20 within the MTFS presented to Finance Council last year, levying a 3% charge in 2017/18. As the escalation of costs and demand in Adult Social Care has again exceeded the assumptions made, the 2018/19 budget presented assumes that the balance of the 6% cap, i.e. 3%, will be applied from 1st April 2018.

5.6 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 Housing Benefit 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 2018/19 is £0.76m (2017/18: £0.84m) however this will reduce further following the move to Universal Credit and the impact of other welfare reforms.

Within Blackburn with Darwen, Universal Credit (Full Service) commenced on 14th February 2018. This means that all claimants making new claims for Housing Benefit, Job Seekers Allowance, Tax Credits, Income Support, Child Tax Credits or the Employment and Support Allowance (ESA), or those with certain changes in circumstances, will move over to Universal Credit and their Housing Benefit will cease as this will be subsumed within the Universal Credit payment. It will take some time to transition people over from the various legacy benefits, but the exercise is expected to complete by 2022.

The concern for the Council is that residents who are eligible for Council Tax Support will not claim as the former referral route through their Housing Benefit claim will no longer be there. This could potentially increase the financial difficulties of some of the most vulnerable residents in our borough however through partnership working with the Department of Work and Pensions (DWP), we are developing mechanisms to ensure the risk of this is minimised. As a Council we have taken the decision to fund two additional members of staff, and also contracted with Shelter for additional support, to be based alongside DWP staff at the Job Centre+ office to support residents in their transition to Universal Credit and to ensure they claim Council Tax Support as applicable. This is to help minimise the adverse financial impact that the new Universal Credit will have on our residents to ensure that as far as possible, this doesn't add further burden to those in dire financial difficulty.

5.7 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 is expected to fall.

The length of time that the bonus is paid for, for each new home built, has reduced from 6 years in 2016/17, down to 5 years with effect from 2017/18 and now to 4 years from 2018/19.

The figures in the draft Finance Settlement have been incorporated into the 2018/19 budget and MTFS as follows;

	2018/19 £m	2019/20 £m	2020/21 £m
New Homes Bonus	1.228	1.305	1.573

Payment of the bonus is however only paid on housing growth above 0.4%; growth below this level does 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.

At a national level, the reduction in the New Homes Bonus funding has been redirected to contribute to the Improved Better Care Fund.

5.8 Improved Better Care Fund

The Government has confirmed that it will publish a Green Paper on adult social care in the summer of 2018 and acknowledges that the increase in demand in this area, both current and projected, is unsustainable and that greater integration between health and social care is essential to addressing this. The intention to move towards closer integration was signalled in the Cabinet reshuffle of January 2018, as responsibility for social care moved from the newly titled Ministry of Housing, Communities and Local Government (MHCLG) into the Department for Health.

The Improved Better Care Fund was introduced in 2017/18, funded in part through reductions in the New Homes Bonus allocation, to provide specific funding for adult

social care on an incremental basis up to 2019/20. In March 2017, (after the 2017/18 Budget and MTFS were approved by Finance Council) additional iBCF funding was announced to provide assistance in alleviating some of the more immediate financial pressures on this service as follows;

	2017/18 £m	2018/19 £m	2019/20 £m
Improved Better Care Fund	0.72	3.71	6.26
Additional Improved Better Care Fund	3.59	2.19	1.08
TOTAL iBCF	4.31	5.90	7.34

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

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

5.9 Adult Social Care Support Grant

Prior to the announcement of the additional iBCF in March 2017, finally, after a great deal of pressure from professional, national and local bodies, in recognition of the immediate national pressures on Adult Social Care budgets and the fact that allocation of the Improved Better Care Fund was weighted towards the later years of the MTFS, the Government introduced a non-recurring Adult Social Care Support Grant for 2017/18, of which the Council received £0.77m to support the increase in costs in the Adult Social Care portfolio.

Following representations made in respect of the provisional Local Government Settlement issued in December 2017, the final settlement of 7th February 2018 again included a non-recurring Adult Social Care Support Grant, allocated according to relative needs, for councils to use to support sustainable local care markets; for 2018/19 Blackburn with Darwen will receive £0.48m.

5.10 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 now allocated in four notional blocks:

- Schools Block
- High Needs Block
- Early Years Block
- Central Services Block

The notional blocks are not individually ring-fenced but are ring-fenced in total and local authorities are responsible, in conjunction with their local Schools Forum, for determining the split of the grant between their own central expenditure and the Individual Schools Budget. The National Funding Formula for Schools determined by central Government will be fully implemented for 2020/21 however for the period 2018/19 and 2019/20 local authorities are responsible for allocating the Individual School Budget to individual schools in accordance with either a 'hard' National Funding Formula or 'soft' local schools' funding formula, as agreed by the local Schools Forum.

For Dedicated Schools Grant the funding arrangements for 2018/19 are broadly similar to last year however there have been some changes between the DSG blocks of funding i.e. Schools, High Needs, Early Years and Central Services. The Education Services Grant was phased out during 2017/18 and education services expenditure can now be funded through the Central Services Block, again with agreement by the local Schools Forum.

5.11 Public Health

In 2018/19 the Public Health Grant remains as a ring-fenced grant to the Authority and as such reductions in funding are offset by a corresponding decrease in expenditure. For Blackburn with Darwen the 2018/19 allocation of grant is £14.83m (2017/18: £15.22m).

5.12 Business Rates 2018/19

Rateable values and the rate in the pound (multiplier) are determined by the Valuation Office and Government, and the resulting Business Rate 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 within 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.

5.13 Business Rates beyond 2018/19

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 estimated that this would mean an additional £13.0 billion would be kept as income by Councils by 2020/21; the intention was also made clear that in exchange for this new responsibilities would transfer to local government to ensure cost neutrality across all of the funding changes.

Following the 2017 General Election and the omission of the Local Government Finance Bill from the Queen's Speech, the Government's plans to devolve additional responsibilities to local government planned under the original policy of 100% rates retention have been curtailed as this would have required primary legislation to enact. As such, within the announcement of the provisional Finance Settlement on 19th December 2017, the Communities Secretary stated that the Government's aim is to increase the local share of business rates retention by up to 75% in 2020/21. This will be through the incorporation of existing grants into business rate retention, including the Revenue Support Grant and the Public Health Grant. The remaining 25% central share will be returned to HM Treasury.

In light of the above, and given the impact of the Brexit negotiations, consultations with councils, businesses and other stakeholders to seek views and ideas across all aspects of the reforms including system design, the work on this has slipped and whilst there are

now 16 areas that are piloting 100% Business Rates Retention, each scheme is different and so it is unclear at this point, what the learning will be from these. What will be important though is the recognition of the diversity and needs of different areas across the country; 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.

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

- Top-ups - provided to reflect the fact that there are councils, including Blackburn with Darwen, 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.

We understand that as part of the Fair Funding Review, and in developing any revised BRRS, the Government will undertake a full review of needs and redistribution for the new system when it comes into force. As such, in the absence of any further information, it is assumed that the Council will continue to receive a top-up grant.

5.14 Growth Agenda

The Council remains committed to delivering a more prosperous borough.

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 income from growth within the MTFS however is a prudent estimate to reflect the risks that are inherent in growth on this scale, such as potential slippage.

The impact of this estimated growth on the Council's Business Rates and Council Tax income streams on the 2018/19 Budget and the MTFS through to 2020/21, is outlined in **Appendix E Section 5.3**.

5.15 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 pressures of the last few years and they will continue to do so.

6. KEY ISSUES - EXPENDITURE

Given the scale of the financial challenge over the past few years, throughout the course of 2017/18 Executive Members and Officers have continued to review all services and worked to deliver the agreed budget reductions.

The development of the approach, and the implementation of the agreed strategies and options to manage costs within the resources available, has significantly assisted in

closing the budget gap however despite the efforts of Executive Members and Officers, the scale of the funding reductions combined with increases in demand for services and unfunded cost pressures, now means that further expenditure reductions are required in 2018/19 and beyond in addition to those already implemented since 2010.

The Workforce Review Programme established in November 2015, continued through 2017/18 to support the savings programme and has now reached the final stages of completion. Given the scale of the funding reductions it has been unfortunate but inevitable that there have been job losses, including compulsory redundancies, although through close working with staff and the Trade Unions these have been kept to a minimum. The workforce has reduced from 3,400 employees (2,900 whole time equivalents (wte) in 2009/10) to 2,100 (1,800 wtes) at the present time; this has been a very difficult time for all staff and the Council is most appreciative of the commitment they have shown in their work throughout this time without which, we would not have been able to continue to deliver such quality services to the residents of the borough.

6.1 Portfolio Budget Pressures

In delivering the budget for 2018/19 and preparing the MTFS, the Council has reviewed the budget pressures faced across all of the portfolios as well as the reductions in funding noted above.

An overview of some of the most significant cost pressures within the portfolios are outlined below. A number of these have been funded corporately within the 2018/19 budget and in the figures presented within the MTFS through to 2020/21 however, whilst the Council is recommended to approve a balanced budget for 2018/19, this is predicated on the delivery of the final elements of the savings programme and on the containment of all current and emerging cost pressures within each portfolio.

6.1.1 Health and Adult Social Care

The portfolio has again faced another very challenging year in 2017/18, like the majority of councils with responsibility for social care. Despite the additional funding provided through the Adult Social Care precept of 3%, the additional iBCF funding and the Adult Social Care Grant, the ongoing financial pressures could not be contained within what was already an increased budget, due to continuing trends in demand and increasing complexity of service user needs which have not abated. Although a breakeven position is forecast at 31st March 2018, this is predicated on the use of reserves.

Whilst the portfolio has continued to deliver efficiencies, these have also been utilised to meet and offset some of the ongoing financial pressures. For 2018/19, the budget has been increased to address current levels of increased demand and the increased cost of care arising from the National Living Wage, these pressures are partly funded from the increases in income that are ring-fenced to this service noted above. For the period of the MTFS some provision has been set aside for future changes in demand and increases in the cost of National Living Wage.

6.1.2 Children's Services

Although receiving a very successful Ofsted report in December 2017, the Children's Services portfolio has been faced with mounting cost pressures over the last couple of years which are set to continue in 2018/19 due to increasing social work caseloads in respect of vulnerable children, combined with increasing expenditure on commissioned placements and special guardianship orders. Placement costs have increased

significantly during the course of 2017/18 predominantly due to changes in complexity of need for individual children and young people. Whilst the majority of cost pressures were contained in previous years through other savings achieved in the portfolio, in 2017/18, in line with the planned delivery of the savings programme, options within the portfolio to mitigate the difficult financial position are much reduced; as such, containment has not been possible which has placed a heavy reliance on the use of Council reserves

To address this in 2018/19, and in the MTFS through to 2020/21, additional funding has been provided to increase the portfolio budget and in particular placement services budgets. In addition the MTFS provides for additional demand in future years within earmarked reserves, should demand increase beyond the level assumed within the portfolio's budget.

6.1.3 Regeneration

The portfolio has been facing significant pressures which it has been trying to contain within existing budgets however for several specific demand led costs, including the highways and the winter maintenance budgets, this will not be possible. As such, for 2018/19 and the period of the MTFS, the current levels of increased demand have been addressed corporately through the budget setting process.

6.2 Other Pressures

6.2.1 Pay Awards and Pay Policy

Given the relatively low levels of inflation, pay awards had been built into the MTFS presented to Finance Council last year at 1% per annum. However in December 2017, a two year offer was made by the Employers to the Trade Unions for 2018/19 and 2019/20 with a flat rate increase of 2% each year, with higher increases for the lower pay points. This offer is currently out to consultation with union members, for whom the ballot closes on 9th March; Unison and Unite have recommended to their members that they should reject the offer.

In the absence of further information at this point, the 2018/19 budget and MTFS assume pay awards of 2% for each of the next 3 years; it is also assumed that the costs of incremental progression will be met from efficiencies and savings made within the individual portfolios.

The Policy Council in December 2017 approved an increase in the Council's Local Living Wage to £8.45 per hour from April 2018 however the current proposals from the National Employers now set a minimum pay rate of £8.50 per hour. For this reason the Pay Policy has been revised to propose, pending the conclusion of National Pay Negotiations, a Local Living Wage rate of £8.50 per hour with effect from 1st April 2018. The Pay Policy Statement, including this and other updates, is set out in Appendix F.

6.2.2 National Living Wage

Increases have been confirmed in the National Living Wage level of £0.33 to £7.83 with effect from 1st April 2018 (for workers aged 25 and above. Increases have also been confirmed in the National Minimum Wage levels as follows;

- Increase from £7.05 to £7.38 per hour for 21-24 year olds

- Increase from £5.60 to £5.90 per hour for 18-20 year olds
- Increase from £4.05 to £4.20 per hour for 16-17 year olds
- Increase from £3.50 to £3.70 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 2018/19 Budget include some provision for increases in provider hourly rates and contract changes from the increase in the NLW with effect from 1st April 2018, 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.

The Government has announced that the National Living Wage is likely to be increased significantly from 2019/20, with a potential increase of £1.17. Provision has been made within the MTFS for NLW increases in future years however as indicated above, it is not possible to precisely quantify the full financial impact of NLW increases year on year due to changes in demand and the care provider market.

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 2018/19 applicable from 1st April 2018.

6.2.3 Pensions

Following the triennial actuarial valuation of the Local Government Pension Scheme in 2016, as agreed, a further stepped increase of 1.0% has been applied in 2018/19 in respect of Employer Pension contributions for the Blackburn with Darwen Borough Council section of the fund. This reflects the staged increase from 12.4% in 2016/17 to 14.8% in 2019/20 as outlined in **Appendix E - Section 6.1**. The increase in costs 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.

As agreed with the Scheme Actuary and the Lancashire Local Pension Board, the Council will continue to repay the scheme deficit over an agreed 19 year repayment period and has reduced costs further, by approximately £0.75m over the 3 years to 2019/20, by taking advantage of the discount offered for a 3 year advance payment in respect of this.

6.2.4 Apprenticeship Levy

The 2018/19 budget and MTFS also reflect the Apprenticeship Levy introduced in April 2017, which is an unfunded tax charged at 0.5% on the total wage bill for organisations with a payroll of over £3.0m. Employers in England can reclaim their contributions in the form of digital vouchers to pay for apprenticeship training programmes for both new and existing staff; this excludes however the costs of wages, travel, management costs, work placements or the running costs of the apprenticeship programme itself.

The Council has worked hard to ensure we fully utilise the digital vouchers created in 2017/18; in the main this is attributable to the training of 22 new apprentices recruited into the workforce during 2017/18 and we intend to recruit more apprentices during 2018/19 as part of our workforce development strategy. Support of approximately £0.45m

is included within the 2018/19 Budget to corporately fund the salary costs of approximately 40 trainees each year. Any apprentices taken over and above this number will be funded from within the respective individual portfolio budgets.

6.2.5 Inflation

Based on the information released by the Office of National Statistics in January 2018, the Consumer Price Index (CPI) for December stood at 3.0%.

Within the 2018/19 Budget and MTFS, provision has only been made for specific inflation on more volatile areas of expenditure such as utilities and waste and also for agreed price inflation within our larger contracts. For more 'general consumables', it has been assumed that this will be contained within existing budgets and cash limits. The commissioning budgets for adult social care do include some provision for increases in provider hourly rates and contract changes arising from the increase in the National Living Wage, however until discussions to determine the impact of this with providers are held and fully understood, and the contract negotiations are completed, it is not possible to precisely quantify them at this stage.

7. SUMMARY

In light of the Local Government Finance Settlement for 2018/19 and the financial constraints on the authority, the Leader and the Executive Members will work with Officers to continuously review the allocation and use of resources including continued review of all expenditure and income budgets, of contractual commitments and property holdings and implementation of savings plans as required, set within the context of the Council's statutory responsibilities and corporate priorities.

Although we are able to recommend for approval a balanced budget for 2018/19, we cannot be complacent as this is predicated on estimates and assumptions that are not without risk;

- Risk that the forecast and provisions for demand are outstripped
- Risk that the expected income streams are not realised
- Risk that the use of strategic reserves may not be possible

The MTFS highlights a budget gap for 2019/20 of £4.93m, and for 2020/21 of £13.26m, although as noted throughout the report, there is significant uncertainty around the assumptions used to produce the figures for the final year of the MTFS given the lack of information provided by central Government at this time. We do however have a strategy to address the cost pressures faced in 2019/20 and beyond through a programme of thematic reviews which will cover;

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

Within these reviews we will be consider cross cutting themes, as applicable, including efficiency savings, potential for growth and income generation, invest to save options, prevention measures to either curtail or defer demand. Whilst the areas for review have been identified and agreed, the business cases and programmes to underpin each of them are currently in development and so savings attributable to each have yet to be quantified. The reviews will commence in the next couple of months and will start to

deliver part-year savings in 2018/19 to offset any other pressures and/or replenish reserves ahead of more significant savings to be made in future years.

8. CAPITAL PROGRAMME 2018-2021

A proposed Capital Programme for 2018 through to 2021 of £72.9m is also recommended to 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.

The programme is predominantly comprised of existing commitments including investment in:

- our local transport plan
- aids and adaptations through provision of disabled facilities grants
- regeneration of the borough
- facilitating housing and business growth
- support of income generation and commercialisation opportunities
- support of continued investment in IT services to underpin our 'digital first' approach to delivering efficiencies and in turn, cash savings
- support of our accommodation review which again will drive efficiencies and savings through rationalisation and a more cost effective use of space

Before projects are allocated funding however, they are subjected to a rigorous business case approval process and detailed Member reports are produced in line with financial procedures as required.

Allocations are 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 our work to enhance the town centres in Blackburn with the development of Blakey Moor and the 3 day market in Darwen
- to support the improvement of leisure facilities and a night time economy with the inclusion of a cinema development
- to support continued investment in IT services to underpin our 'digital first' approach to delivering efficiencies and in turn, cash savings
- 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 2018/19 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 2018/19 remains at £4.0m.

10. COUNCIL TAX

The assumptions made within these budget proposals, which are in line with those made by the Government, are that the Council will increase Council Tax in 2018/19 by 5.99% reflecting;

2.99% - 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 2018 to 2021 has been reviewed and updated, incorporating;

- the indicative funding allocations for 2019/20, as included in the Government's multi-year settlement "offer" which was accepted by the Council in October 2016
- in the absence of any information or detail regarding the allocation of local government funding for 2020/21 and beyond (i.e. the mechanics of the future Business Rates Retention Scheme, the future provision and allocation of Government grant funding (if any) and the outcome of the Fair Funding Review), the figures for 2020/21 are based on a continuation of the funding mechanisms and assumptions in place for 2019/20
- 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 2018/19
- Appendix B - Balancing the 2018/19 Budget Gap
- Appendix C - Portfolio Cash Limits
- Appendix D - Capital Programme 2018-21
- Appendix E - Medium Term Financial Strategy 2018-21
- Appendix F - Pay Policy Statement 2018/19

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 2018/19, the Capital Programme and the level of Council Tax, together with indicative figures for the following 2 years through to 2020/21.

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, partners and stakeholders. Over the course of the last couple of months, budget consultation exercises have been conducted with both residents and Business Rate payers across the borough through on line surveys to find out opinions on council services over the last 12 months and on their preferred approaches to balancing the budget; this feedback has helped to shape the 2018/19 and MTFS proposals.

CONTACT MEMBER: Councillor Andy Kay, Executive Member for Resources

DATE: 26th February 2018

Appendix A

Budget Summary 2018/19

	2018/19 budget as agreed at Finance Council 2017	Updated 2018/19 Budget	Variation
	£000	£000	£000
Net expenditure			
Portfolio controllable budgets	103,745	112,916	9,171
Net income from support service recharges	(641)	(641)	0
Interest, MRP and revenue contributions	18,191	17,734	(457)
Contingencies	2,767	1,286	(1,481)
Parish precepts and grants	181	183	2
Net expenditure	**124,243**	**131,478**	**7,235**
Resources			
Government grants	57,334	61,589	4,255
Business Rates retained locally	19,712	19,679	(33)
Council Tax	47,059	47,656	597
Council Tax increase - general increase 2.99% (1.99% assumed in MTFS of Feb 2017)	933	1,420	487
Council tax increase - 3.0% increase in respect of Adult Social Care services (1.5% assumed in MTFS of Feb 2017)	704	1,425	721
Collection fund surplus / (deficit)	0	(291)	(291)
Contribution from / (to) reserves	(1,499)	0	1,499
Net resources	**124,243**	**131,478**	**7,235**
Required Reductions in Expenditure/Increases in Revenue	**0**	**0**	**0**

The table above identifies the changes between the summary 2018/19 Budget headings as presented in the MTFS to Finance Council back in February 2017 and the current, updated position presented to Finance Council on 26th February 2018.

Appendix B

Balancing 2018/19 Budget

	£000 (Reduction)/ Increase in Budget Gap
2018/19 Budget Gap (as presented to Finance Council in February 2017)	**0**
Budget pressures (net of savings and specific income streams identified to address these)	3,757
Increase in general Government resources following notification of the final Finance Settlement in February 2018	(1,334)
Revised Budget Gap for 2018/19	**2,423**
Revised assumptions in respect of pay and price inflation, council tax and business rates growth and other adjustments	841
Savings in interest and debt repayment	(557)
Proposed Council Tax increase - general increase of 2.99% (1.99% included in the MTFS in Feb 2016)	(487)
Proposed Council Tax increase re Adult Social Care functions - 3% increase (rephasing of balance into 18/19 compared with 1.5% in 18/19 and 1.5% in 19/20 included in the MTFS presented in Feb 2016)	(721)
Reduction in contribution to reserves	(1,499)
2018/19 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

PORTFOLIO CASH LIMITS

PORTFOLIO	2018/19 budget Finance Council 2017	Updated 2018/19 Budget	Variation Incr/(Decr)	
Health and Adult Social Care	45,321	49,123	3,802	NOTE 1
Children's Services	21,049	24,449	3,400	NOTE 2
Environment	8,788	7,854	(934)	
Leisure, Culture and Young people	3,102	3,224	122	
Neighbourhoods and Prevention Services	1,295	863	(432)	
Regeneration	7,560	8,133	573	
Resources	13,169	15,338	2,169	NOTE 3
Schools and Education (non-DSG)	3,461	3,932	471	
TOTAL PORTFOLIO CASH LIMITS	**103,745**	**112,916**	**9,171**	

NOTE 1 - For 2018/19, the budget has been increased to address current levels of increased demand and the increased cost of care arising from the National Living Wage, these pressures are partly funded from the increases in income that are ring-fenced to this service.

NOTE 2 - the Children's Services portfolio has been faced with mounting cost pressures due to increasing social work caseloads in respect of vulnerable children, combined with increasing expenditure on commissioned placements and special guardianship orders. Placement costs have increased significantly during the course of 2017/18 predominantly due to changes in complexity of need for individual children and young people. To address this additional funding has been provided to increase the portfolio budget and in particular placement services budgets.

NOTE 3 - The Resources portfolio budget increase is due to the centralisation of the Business Support and Procurement functions of the Council which took place as part of the Council's budget strategy in 2017/18.

The table above summarises the changes in the Portfolio Cash Limits between the projected budget for 2018/19 that was included in the February 2017 MTFS and the Actual Budget for 2018/19 presented for approval to Council on 26th February 2018

APPENDIX D

Capital Programme 2018/2021

	2018/19 £'000	2019/20 £'000	2020/21 £'000	Future Years £'000
1. Estimated Available Resources				
Unsupported Borrowing	14,389	14,189	1,963	614
- Department for Education	2,426	-	-	-
- Department for Transport Grants	3,799	4,799	3,299	-
- Disabled Facilities Grant	1,661	1,661	1,661	1,661
Other Specific Grants	855	568	234	11
Government Grants	**8,741**	**7,028**	**5,194**	**1,672**
External Contributions	6,714	7,295	3,672	4
Revenue Contributions	500	-	-	-
Capital Receipts	-	-	-	-
TOTAL ESTIMATED AVAILABLE RESOURCES	**30,344**	**28,512**	**10,829**	**2,290**

2. Approved schemes				
Health & Adult Social Care				
Disabled Facilities Grant	1,858	1,658	1,658	1,658
Telecare Project	160	160	160	160
Shorey Bank/Riverside Heights Extra Care Scheme Site	-	186	-	-
	2,018	**2,004**	**1,818**	**1,818**
Children's Services				
Disabled Facilities Grant	300	300	300	300
Accrington Road Nursery Site 2 year old grant	263			
	563	**300**	**300**	**300**
Environment				
Old Bank Lane Car Park	300	-	-	-
	300	**-**	**-**	**-**
Leisure, Culture & Young People				
	-	**-**	**-**	**-**
Neighbourhoods, Housing & Customer Services				
	-	**-**	**-**	**-**
Regeneration				
Assistance to Industry	150	150	150	150
Blakey Moor	1,372	1,506	497	22
Local Transport Plan	3,537	3,516	3,349	-
Growth Deal 3 (Pennine Gateways)	3,256	6,404	3,540	-
Darwen East Corridor	2,332	57	-	-
National Productivity Investment Fund - Fabric Borders	950	1,950	-	-
Clearance - Bank Top & Griffin	300	-	-	-

Neighbourhood Intervention Fund	460	-	-	-
Refurbishment of Loans	100	-	-	-
Equity Loans/PALS Griffin	87	-	-	-
Empty property cluster scheme	440	-	-	-
Capacity Funding	50	-	-	-
Other Acquisition Costs	10	-	-	-
Affordable Homes Funding	200	-	-	-
Reel Cinema	2,450	3,575	175	-
Darwen 3 Day Market	1,550	-	-	-
Cathedral Quarter Development Office Block	10	-	-	-
	17,254	**17,158**	**7,711**	**172**
Resources				
Corporate ICT Monitor and management	30	-	-	-
Corporate ICT Digitisation of Registrars	20	-	-	-
Corporate ICT Public Access	150	-	-	-
Corporate ICT Wan Connectivity	70	-	-	-
Corporate ICT Microsoft EA	9	-	-	-
Corporate ICT Ticketing system for KGH/DLT	27	-	-	-
Corporate ICT Legal Services Case Management	168	-	-	-
Corporate Accommodation Strategy	1,950	4,550	-	-
Carbon Management Plan	159	-	-	-
Davyfield Road Bungalow Remodel	50	-	-	-
Land Remediation Schemes	199	-	-	-
Corporate DDA	169	-	-	-
Digital Advertising Screen Blackburn Town Centre	95			
Griffin Lodge	300	-	-	-
Demolition of Higher House Farm	100			
	3,496	**4,550**	**-**	**-**
Schools & Education				
Feniscowles	99	-	-	-
St Thomas PRU	457	-	-	-
St Barnabas and St Pauls	790	-	-	-
Audley Infant and Junior Heating System	480	-	-	-
Audley Junior Roofing Works	217	-	-	-
Lower Darwen Roof Covering	170	-	-	-
	2,213	**-**	**-**	**-**
TOTAL Approved Schemes	**25,844**	**24,012**	**9,829**	**2,290**

3. Earmarked schemes

Corporate ICT	3,000	3,500	-	-
Corporate Property Investment	1,500	1,000	1,000	-
TOTAL Earmarked capital reserves	**4,500**	**4,500**	**1,000**	**-**

TOTAL CAPITAL PROGRAMME	**30,344**	**28,512**	**10,829**	**2,290**
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	250	-	-

Appendix E

MEDIUM TERM FINANCIAL STRATEGY 2018 to 2021

1.0 Purpose

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

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

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

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

2.0 Local Context

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

The Council's six priority objectives for residents are:

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

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

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

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

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

3.0 Financial Context

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

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

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

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

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

4.0 MTFS – Key issues and assumptions

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

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

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

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

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

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

5.0 MTFS key issues and assumptions - Resources and Funding

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

5.1 Local Government Finance Settlement

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

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

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

5.2 Council Tax

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

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

Within the Financial Settlement for 2018/19, the Government announced an increase in the referendum cap from 2.0% to 3.0% in both 2018/19 and 2019/20 (i.e. the

maximum amount that Council Tax can increase without the need for a referendum). They then proceeded to assume within their calculation of Blackburn with Darwen's Settlement Funding Assessment (SFA), that we would increase Council Tax by 2.99% in each year and as such, included this as part of our baseline funding.

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

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

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

5.3 Growth Agenda

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

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

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

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

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

5.4 Business Rates

5.4.1 Revaluation

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

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

5.4.2 Business Rates Retention

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

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

5.4.3 Business Rate Top-up and Tariffs

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

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

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

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

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

5.6 Adult Social Care Funding

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

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

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

5.6.1 Improved Better Care Fund

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

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

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

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

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

5.6.2 Adult Social Care Grant

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

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

5.7 Fair Funding Review

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

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

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

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

6.0 MTFS key issues and assumptions - Expenditure

6.1 Pensions

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

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

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

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

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

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

6.2 Demand Pressures and Thematic Saving Reviews

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

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

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

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

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

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

6.3 Pay Awards

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

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

6.4 National Living Wage and Local Living Wage

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

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

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

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

6.5 Price inflation

Specific price inflation has been included each year within the MTFS for items such as utilities, waste and for agreed contract price inflation however for 'general

consumables', it has been assumed that this will be contained within existing budgets and cash limits.

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

6.6 Interest rates and borrowing

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

7.0 Three Year Financial Forecast - Summary

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

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

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

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

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

Appendix E

MEDIUM TERM FINANCIAL FORECAST 2018/19 TO 2020/21

Summary

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

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

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

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

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

Pay Policy Statement for the Year 2018/19

1. Introduction and Purpose

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

1.2 The purpose of this policy statement is to provide transparency regarding our approach to setting the pay of employees (excluding teachers working in local authority schools) by identifying:

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

1.3 It applies for the year 2018/2019 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 at least an annual basis, the policy for the next financial year being approved by 31st March each year.

This Pay Policy Statement makes reference to a number of related documents and information which can 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 14.1 below.

2. Other legislation relevant to pay and remuneration

2.1 In determining the pay and remuneration of all our 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. We will also ensure there is no pay discrimination within our 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 our local pay structure, which determines the salaries of the large majority of our (non-teaching) workforce together with locally determined rates where these do not apply.

3.2 We adopt national pay bargaining arrangements for 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 our grading structure and setting remuneration levels for posts, the Council takes account of the need to ensure value for money in the use of public expenditure, balanced against the need to recruit and retain employees who are able to meet our requirements in providing high quality services to the community, delivered effectively and efficiently and at times at which the 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 alternative employment or flexible retirement, this is approved in accordance with the Recruitment and Selection Policy.

3.6 From time to time it may be necessary for us 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, we will ensure the requirement for such is objectively justified by reference to clear and transparent evidence of relevant market comparators, using data sources that are appropriate and available from within the local government sector and outside.

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 2018.

4.2 Where we are 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 we are 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 we are 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 2018/2019
(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
£87,896 - £94,087

Director of Adults & Prevention (DASS) (Plus SRA £7,641 Note ii)
Sayyed Osman
sayyed.osman@blackburn.gov.uk – 01254 585340

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

Director of HR, Legal & Governance (note iv)
David Fairclough
david.fairclough@blackburn.gov.uk – 01254 585642

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

Director of Digital & Business Change
VACANT

Director of Children's Services (DCS) (plus SRA £7,641 Note ii
& retention allowance £12,000 Note iii)
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
£78,492 - £86,020
Steven.Cochrane@growthlancashire.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 2018.

ii) A special responsibilities allowance is paid to officers with the statutory DASS (Director of Adult Social Services) and DCS (Director of Children's Services) responsibilities.

iii) A temporary retention allowance is paid to the Director of Children's Services which is reviewed annually.

iv) Until September 2018 this officer's salary as shown is reduced by £3,750 to reflect legacy lease car arrangements which end in September 2018

v) The Council contract with Capita Plc for services and currently the Capita Partnership Director manages some Council Services in the Growth & Development Department and is designated Director of Growth & Development.

vi) The Chief Officer Employment Committee determines the numbers and grades of Chief Officers - full terms of reference are contained in the Council Constitution. Appointments are subject to consultation with the Executive Board - Current membership of the Committee is 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 are contained in the Council Constitution. Current Membership of the Committee is 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 we will take full and proper account of all relevant employment law and Equal Opportunities, Recruitment and Alternative Employment Procedures 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 for 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. Our 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 we make 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 Our approach to payment of Senior Managers is the same as those which apply to all our employees including those related to long service awards.

8.2 Currently, we operate 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 appropriate employees.

8.5 In all instances, including Senior Managers, our approach is to avoid employee 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 line with the Council's alternative employment process. 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 leave our employment, this includes employment by 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 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 would not be greater than one and a half year salary.

9. Lowest Paid Employees

9.1 The lowest paid employees on 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 31st January 2018, this is £15,144 per annum (This includes the 'local living wage' supplement – See 9.5). We employ 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 our 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 from 1st April 2018 is £8.50 per hour (was £7.85 per hour as at 31st January 2018). As a result, any salary point paid currently less than £8.50 per hour will have a 'local living wage' supplement added in order to ensure the employee concerned receives no less than £8.50 per hour (basic) pay. This does not apply to Apprentices/Trainees and will continue to apply until we consider a review is appropriate or that the National Minimum Wage or National Pay Scales exceed this hourly rate.

10. Apprentices

10.1 Our rates for Apprentices are in line with the National Living Wage and the National Minimum Wage guidelines for non-apprentices. The rates change every April.

Tier 1 – £5.90 – Those undertaking level 3 qualifications
Tier 2 – £7.38 – Those undertaking level 5 qualifications

11. Gender Pay Gap

11.1 The Equality Act 2010 (Gender Pay Gap Information) Regulations came into effect in March 2017. They require that organisations with 250 employees or more publish a series of statistics covering a number of different measures of the gap between the total pay of male and female employees. These measures must be published, no later than 30 March 2018 for Public Authorities, and every 12 months thereafter.

11.2 We were very pro-active in ensuring that a review of pay and reward was undertaken at a very early stage over ten years ago and we have continued to monitor the impact of this on our workforce. Men and women in the same role, performing equal work are paid equally,

'same job – same pay'. We actively support the progression of both men and women within the organisation and all employees progress proportionately.

11.3 Our Gender Pay information is outlined in our published Equality Watch Report 17/18 which can be viewed here: http://www.blackburn.gov.uk/Pages/Equality-and-diversity.aspx

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

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

12.2 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.

12.3 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.

12.4 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	£26,522
Average Pay (per annum) – median	£23,398
Pay Difference (between average & highest pay) – mean	£125,893
Pay Difference (between average & highest pay) – median	£129,017
Pay Multiple (ratio between average & highest pay) - mean	5.7:1
Pay Multiple (ratio between average & highest pay) – median	6.5:1
Pay Multiple (ratio between the lowest and the highest pay)	10.1:1
Data based on pay as at	31/01/2018

Notes

- The data is based on pay as at 31st January 2018 and includes the Living Wage Supplement (£7.85 per hour – see para 9.5 above).

13. Trade Union Facility Time

(The following section will be completed at the end of the 2017/2018 financial year and published accordingly).

Trade Union Facility Time information for the period 1st April 2017 – 31st March 2018.

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

13.2 Total number of employees who were relevant union officials during the relevant period

Number of employees who were relevant union officials during the relevant period	*Full-time equivalent employee number*

13.3 Number of employees who were relevant union officials employed during the relevant period spent a) 0%, b) 1%-50%, c) 51%-99% or d) 100% of their working hours on facility time?

Percentage of time	*Number of employees*
0%	
1-50%	
51%-99%	
100%	

13.4 Percentage of total pay bill spent on paying employees who were relevant union officials for facility time during the relevant period.

First Column	*Figures*
Provide the total cost of facility time	
Provide the total pay bill	
Provide the percentage of the total pay bill spent on facility time, calculated as: (total cost of facility time ÷ total pay bill) x 100	

13.5 As a percentage of total paid facility time hours, number of hours spent by employees who were relevant union officials during the relevant period on paid trade union activities.

Time spent on paid trade union activities as a percentage of total paid facility time hours calculated as: *(total hours spent on paid trade union activities by relevant union officials during the relevant period ÷ total paid facility time hours) x 100*	

14. Publication

14.1 Upon approval by the full Council, this statement will be published on the Councils Website. The Policy will be updated and re-published at least annually.

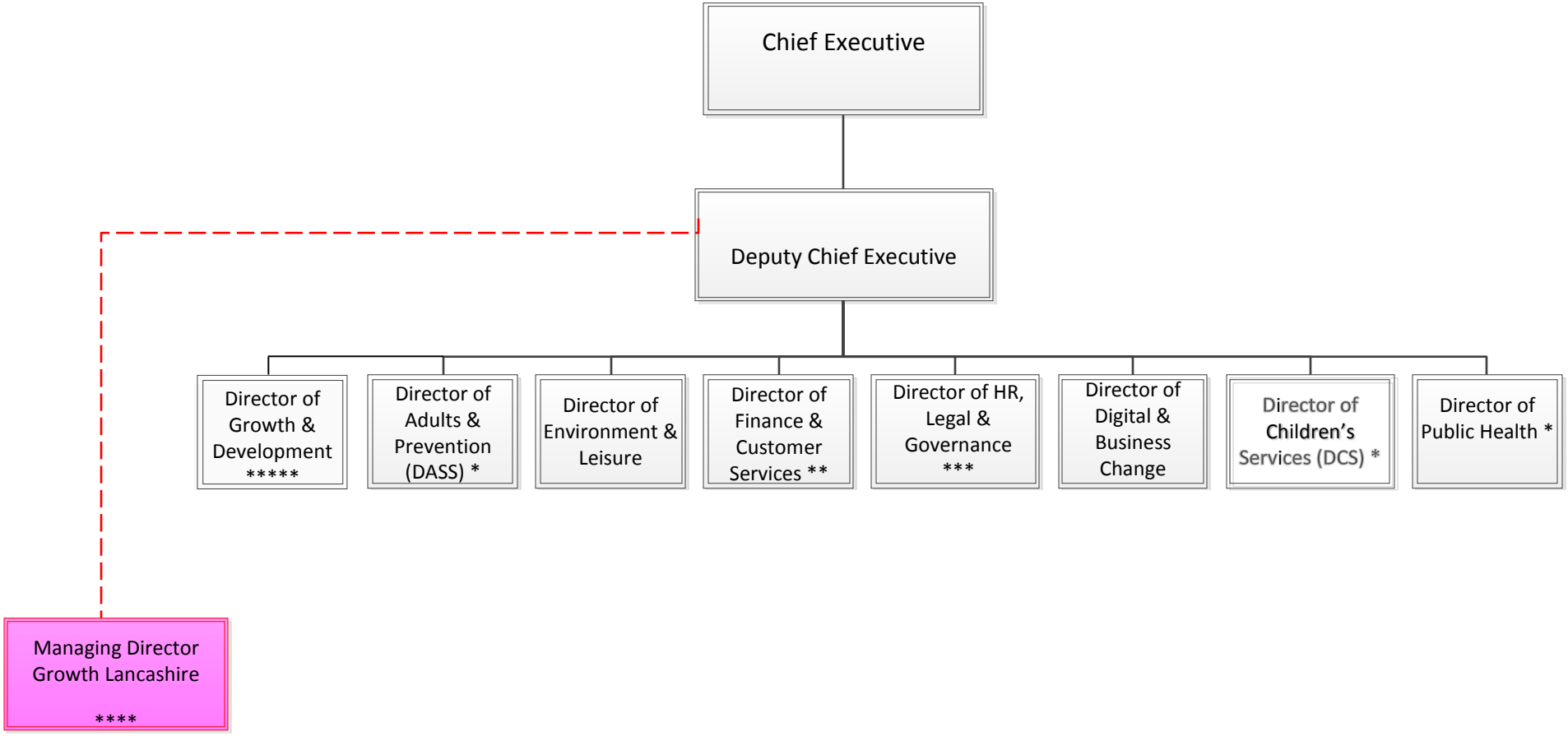
Our Annual Statement of Accounts will also include a note setting out:

- 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**
*****	**Temporary role Capita Partnership**

REPORT OF:	**DIRECTOR OF FINANCE & IT**
TO:	**COUNCIL**
ON:	**26th FEBRUARY 2018**

SUBJECT : COUNCIL TAX FOR 2018/19

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 2018/19, 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 2018/19. 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 2018/19, together with the basic amount of Council Tax in relation to Band D properties for that part of the Borough having no Parish Councils is calculated as follows:

	£M
Council's proposed net expenditure	131.322
Add: Council's share of estimated deficit on the Council Tax Collection Fund	0.512
	131.834
Less: General government grant funding	- 61.589
Retained business rates income	- 19.899
Borough Council's Council Tax Requirement	50.346
Council Tax Base:	**34,341.92**
Council Tax at Band D	**£1,466.00**

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	£183,567.34
Less: Grants paid by Borough Council	£27,336.50
Total Parish Precepts	£156,230.84
Council Tax Base:	**34,341.92**
Average Parish Council Tax at Band D	**£4.55**

In accordance with Section 31B of the Act, the basic amount of Council Tax for the year, including Parish precepts, is £1,470.55 (i.e. £1,466.00 + £4.55).

5.3 Collection Fund

Members will note from the calculation shown in paragraph 5.1 above, that Blackburn's share of the deficit on the Council Tax Collection Fund is £511,671. Legislation requires that any such surplus or deficit must be reflected in the Council Tax calculation and, therefore, represents a reduction in funds for the

year 2018/19.

5.4 Major Precepting Authorities

On 16th February 2018, the Police and Crime Commissioner for Lancashire agreed a budget and an expenditure precept for the year 2018/19. The amount of precept due from Blackburn with Darwen Council has been set at £6,093,974, after an adjustment of £61,005 in respect of the precepting authority's share of the estimated Collection Fund deficit. This results in a Band D Council Tax of £177.45, an increase of £12 per year for a Band D property.

At the time of writing this report, the Lancashire Combined Fire Authority had yet to meet to agree its budget and expenditure precept for 2018/19; it is due to meet on 19th February 2018. The amount of precept due from Blackburn with Darwen Council is proposed at £2,316,706, after an adjustment of £24,151 in respect of the precepting authority's share of the estimated Collection Fund deficit. This results in a Band D Council Tax of £67.46, an increase of 2.99%. *(Further information will be circulated in advance of the Finance Council meeting if the decision taken by the Fire Authority is different to the proposal made above).*

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	50.346
Lancashire Police Authority Precept	6.094
Lancashire Combined Fire Authority Precept	2.316
Total Council Tax requirement	**58.756**
Council Tax Base:	**34,341.92**
Aggregate Council Tax at Band D	**£1,710.91**

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 2018/19 is

£1,470.55.

- the average of the Parishes element (£4.55) is then deducted to give the Council Tax at Band D for those parts of the Borough not having a Parish Council (£1,466.00).
- 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 & I.T. – Ext. 5600
Contact Officer:	Karen Moore, Senior Finance Officer – Ext. 5929
Date:	16th February 2018
Background Papers:	Budget documentation and reports previously issued

Appendix 1

Blackburn with Darwen Borough Council

Draft Council Tax Resolution 2018/19 – Finance Council, 26 February 2018

The Council is recommended to resolve as follows:

1. That it be noted that on 24th January 2018, the Council calculated the Council Tax Base for the year 2018/19 in accordance with regulations made under Section 31B(3) of the Local Government Finance Act 1992, as amended (the Act):

   a) 34,341.92 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 2018/19 in accordance with Sections 31 to 36 of the Act:

   a) £386,253,164 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) £335,751,693 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) £50,501,471 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) £1,470.55 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) £156,230.84 being the aggregate amount of all special items (Parish precepts) referred to in Section 34(1) of the Act (see Appendix 2).

   f) £1,466.00 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 2018/19 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 2018/19 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	£994.10	£1,159.78	£1,325.47	£1,491.15	£1,822.52	£2,153.88	£2,485.25	£2,982.30
Livesey Parish	£982.84	£1,146.65	£1,310.45	£1,474.26	£1,801.87	£2,129.49	£2,457.10	£2,948.52
North Turton Parish	£988.17	£1,152.87	£1,317.56	£1,482.26	£1,811.65	£2,141.04	£2,470.43	£2,964.52
Pleasington Parish	£981.05	£1,144.56	£1,308.07	£1,471.58	£1,798.60	£2,125.62	£2,452.63	£2,943.16
Tockholes Parish	£1,000.83	£1,167.64	£1,334.44	£1,501.25	£1,834.86	£2,168.47	£2,502.08	£3,002.50
Yate and Pickup Bank Parish	£992.09	£1,157.43	£1,322.78	£1,488.13	£1,818.83	£2,149.52	£2,480.22	£2,976.26
Darwen Town Council	£986.15	£1,150.51	£1,314.87	£1,479.23	£1,807.95	£2,136.67	£2,465.38	£2,958.46
All other parts of the Council's area	£977.33	£1,140.22	£1,303.11	£1,466.00	£1,791.78	£2,117.56	£2,443.33	£2,932.00

b) Major Precepting Authorities

Precepting Authority	Valuation Bands							
	A	B	C	D	E	F	G	H
Lancashire Police Authority	£118.30	£138.02	£157.73	£177.45	£216.88	£256.32	£295.75	£354.90
Lancashire Combined Fire Authority	£44.97	£52.47	£59.96	£67.46	£82.45	£97.44	£112.43	£134.92

c) Aggregate Council Tax

Part of the Council's Area	Valuation Bands							
	A	B	C	D	E	F	G	H
Eccleshill Parish	£1,157.36	£1,350.27	£1,543.14	£1,736.05	£2,121.83	£2,507.62	£2,893.41	£3,472.10
Livesey Parish	£1,146.11	£1,337.14	£1,528.14	£1,719.17	£2,101.20	£2,483.24	£2,865.28	£3,438.34
North Turton Parish	£1,151.44	£1,343.35	£1,535.24	£1,727.16	£2,110.97	£2,494.78	£2,878.60	£3,454.32
Pleasington Parish	£1,144.32	£1,335.06	£1,525.76	£1,716.49	£2,097.92	£2,479.37	£2,860.81	£3,432.98
Tockholes Parish	£1,164.10	£1,358.13	£1,552.13	£1,746.16	£2,134.19	£2,522.23	£2,910.26	£3,492.32
Yate and Pickup Bank Parish	£1,155.35	£1,347.92	£1,540.46	£1,733.03	£2,118.14	£2,503.26	£2,888.38	£3,466.06
Darwen Town Council	£1,149.42	£1,341.01	£1,532.56	£1,724.14	£2,107.27	£2,490.42	£2,873.56	£3,448.28
All other parts of the Council's area	£1,140.60	£1,330.71	£1,520.79	£1,710.91	£2,091.10	£2,471.30	£2,851.51	£3,421.81

Appendix 2

Town and Parish Council Precepts

	2017/18				2018/19				Council Tax Increase / (Reduction)
Parish / Town Council	Tax Base	Precepts £	Grant £	Council Tax Band D £	Tax Base	Precepts £	Grant £	Council Tax Band D £	*Council Tax Band D 18/19 less 17/18* **£**
Eccleshill Parish	93.16	2,328.00	413.50	24.99	92.57	2,328.00	413.50	25.15	0.16
Livesey Parish	1,859.20	14,629.00	1,371.00	7.87	1,879.27	15,523.00	1,371.00	8.26	0.39
North Turton Parish	1,693.33	27,069.00	1,241.00	15.99	1,741.18	28,310.00	1,241.00	16.26	0.27
Pleasington Parish	249.72	1,450.00	0.00	5.81	259.81	1,450.00	0.00	5.58	(0.23)
Tockholes Parish	211.13	7,233.46	146.00	34.26	211.47	7,454.84	146.00	35.25	0.99
Yate and Pickup Bank Parish	137.35	3,040.00	260.00	22.13	138.74	3,070.00	260.00	22.13	0.00
Darwen Town Council	7,353.32	98,095.00	23,905.00	13.34	7,414.15	98,095.00	23,905.00	13.23	(0.11)
TOTAL / AVERAGE	**11,597.21**	**153,844.46**	**27,336.50**	**4.54**	**11,737.19**	**156,230.84**	**27,336.50**	**4.55**	**0.01**