Appendix E

MEDIUM TERM FINANCIAL STRATEGY 2017 to 2020

1.0 Purpose

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

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

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

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

2.0 Local Context

The MTFS underpins the Council's Corporate Plan, which was agreed by elected members at Council Forum in July 2016. The Plan sets out for residents, staff and partners, the Council's top priorities for 2016 to 2019 and how the Council will continue to improve services and prepare for the ongoing and difficult financial challenges ahead.

The Council's six priority objectives for residents are:

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

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

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

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

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

3.0 Financial Context

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

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

4.0 MTFS – Key issues and assumptions

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

The 40% reduction however does not fully reflect the actual level of cuts that the Council has had to make in staff and services; the figure is actually greater as, over the period, the Council has had to absorb the costs of inflation (both pay and non-pay increases) and the costs of increasing demand.

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

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

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

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

5.0 MTFS key issues and assumptions - Resources and Funding

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

5.1 Local Government Finance Settlement

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

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

Although the Council has accepted the multi-year settlement offer, and the figures have been incorporated into the MTFS for the 3 financial years 2017/18, 2018/19 and 2019/20 as detailed in the table below, it must be borne in mind that the offer could be subject to change if *'exceptional circumstances prevail'*

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

Resources	2017/18 £M	2018/19 £M	2019/20 £M
Revenue Support Grant	22.3	17.8	13.3
Top Up	22.5	23.2	24.1
New Homes Bonus	1.4	1.1	1.0
Council Tax and Housing Benefit Admin Grant	0.8	0.8	0.7
Business Rates related grants	2.4	2.2	2.2
Education Services Grant (ESG)	0.5	-	-
Better Schools Fund PFI funding	8.5	8.5	8.5
Adult Social Care Support Grant (17/18 only)	0.8	-	-
Sc 31 Grant for Improved Better Care Fund	0.7	3.7	6.3
Total Government Resources	**59.9**	**57.3**	**56.1**

5.2 Council Tax

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

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

5.3 Growth Agenda

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

Within the budget for 2017/18 and in the MTFS through to 2019/20, additional Council Tax and Business Rates income, based on growth, has been assumed as follows;

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

5.4 Business Rates

5.4.1 Revaluation

The results of the recent Business Rates Revaluation exercise, which has updated rateable values to reflect the market as at 1st April 2015, will take effect from 1st April 2017. Revaluation is a revenue neutral exercise i.e. the total rates bill across England will remain the same in real terms, after allowing for appeals. At the Local Authority level however business rates will increase or decrease depending upon whether rateable values in the area have performed above or below the average for England, again after allowing for appeals.

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

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

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

5.4.2 100% Business Rates Retention

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

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

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

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

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

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

5.6 Improved Better Care Fund

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

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

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

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

6.0 MTFS key issues and assumptions - Expenditure

6.1 Pensions

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

Following discussions with the Scheme Actuary and the Head of Lancashire County Pension Fund, and agreement by the Lancashire Local Pension Board, it has been confirmed that the Council can continue to repay the scheme deficit over a period of 19 years (rather than the original proposal of 16 years) provided contributions are maintained at no less than their 2016/17 levels, i.e. at £4.8m per year.

In respect of future service contributions, the triennial valuation has identified that an increase from 12.4% to 14.8% in Employer Pension contributions is required to meet the projected increase in future liabilities. Again, after discussions with the Scheme Actuary and the Head of Lancashire County Pension Fund, it has been agreed that the Council can take a stepped approach to implement these increases as follows;

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

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

6.2 Demand Pressures and Savings Programme

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

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

6.3 Pay Awards and the Apprenticeship Levy

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

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

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

6.4 Price inflation

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

The commissioning budgets included in the 2017/18 Budget, and in the MTFS through to 2019/20, include some provision for increases in provider hourly rates and contract changes arising from the increase in the National Living Wage with effect from 1st April 2017, however until discussions to determine the impact of this with providers are held and fully understood, and the contract negotiations are completed, it is not possible to precisely quantify them this at this stage.

6.5 Interest rates and borrowing

The MTFS reflects forecast interest rates (both on borrowing and investment) outlined in the report on Treasury Management Strategy, Prudential Indicators and Minimum Revenue Provision Policy 2017/18 and commitments within the Capital Programme in terms of both forecast expenditure and forecast capital receipts.

7.0 Three Year Financial Forecast - Summary

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

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

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

Appendix E

MEDIUM TERM FINANCIAL FORECAST 2017/18 TO 2019/20

Summary

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

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

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