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 resource,

- 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