REPORT OF:	EXECUTIVE MEMBER FOR RESOURCES
TO:	POLICY COUNCIL
ON:	1st DECEMBER 2016

SUBJECT: Medium Term Financial Strategy update and flexibility to use capital receipts

1. PURPOSE OF THE REPORT

To provide an update on the Medium Term Financial Strategy (MTFS) 2016-20 and savings programme and to seek approval to adopt the Government's flexibility in the use of capital receipts.

2. RECOMMENDATIONS

Policy Council is recommended;

To note the update on the MTFS.

2.2 To approve progression of the savings options outlined in Appendix A and the following, in order to close the budget gap;

- To approve a fundamental review of in-house adult social care services for older people and adults with a learning disability, and to note that a further report detailing the outcome of the review will be brought to a future Executive Board meeting with recommendations for consideration and approval
- To approve a service delivery review of adolescent services and a review of supported accommodation, and to note that a further report detailing the outcome of the review will be brought to a future Executive Board meeting with recommendations for consideration and approval
- To approve in principle a reduction in public transport bus subsidies, and to note that a further report will be brought to a future Executive Board meeting with details of the proposed routes affected following consultation, and recommendations for consideration and approval
- To reduce expenditure on highways and associated infrastructure assets in the financial years 2017/18 and 2018/19
- To cease the Council's contribution to the Lancashire Constabulary in respect of Police Community Support Officers (PCSOs)

2.3 To approve the facility for flexibility in the use of capital receipts, the option for which was introduced by the Government in the 2016/17 Financial Settlement, and to note that a report detailing the proposed use of such receipts in 2016/17 will be presented to Finance Council in February 2017 for consideration and approval.

3. BACKGROUND

3.1 MTFS and the impact of austerity since 2010/11

From a base of £183.1 million in 2010/11, the borough has seen a significant reduction in funding, comprising of government funding, council tax and business rates, to £118.4 million in 2016/17; a reduction of 35.3% which 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.

These cuts have been delivered through the Transformation Programme during 2010 to 2014 and through successive savings plans such as that agreed by Council in September 2014 (approx. £26 million), the more recent £3.6 million savings programme to balance the budget in 2016/17 and more latterly, through the development of the savings programme for the next 2 to 3 years including workforce review savings and increases in fees, charges and income which together amount to £15.0 million.

The level of staffing reductions over the period 1st April 2010 – 31st August 2016 equates to 903 wte (1,137 headcount) which is again understated as the figures are net of increases in staffing numbers arising from the transfer of staff in Public Health and back from Capita in 2012 and between January and July 2016. The staffing reductions have been delivered through a combination of staff leaving the council to take up new employment elsewhere and as a consequence of natural retirement, however they also include 398 voluntary redundancies, 173 early retirements and unfortunately, 266 compulsory redundancies.

3.2 MTFS Update – balancing the budget 2016/17 to 2019/20

The figures provided in the final Local Government Finance Settlement of 9th February 2016, provided strong indication that the approach to managing public sector spending and reducing the national deficit was set to continue until at least 2019/20; despite the change of government ministers, nothing has been issued to indicate a change from this approach.

The current balanced budget for 2016/17, together with the MTFS for the subsequent years through to 2019/20, presented to Finance Council in February 2016, is predicated on a series of challenging assumptions and significant saving plans requiring a fundamental review of all services delivered across the Council to see how costs can be reduced and income streams increased, whilst trying to ensure support is provided to those residents in hardship and also encouraging the growth of jobs and businesses.

Whilst the objective for each portfolio, department and team is to deliver services within their individual cash-limit budgets, cost pressures have prevailed emanating from increases in demand for services as well as the challenges presented in implementing large scale workforce and service reductions as required by the savings programme. As such, as per the Corporate Revenue Monitoring Report presented to Executive Board in November 2016, an overspend of approximately £630k is forecast for 31st March 2017 across the overall Council budget, based on levels of expenditure at 30th September 2016.

Whilst every effort is being made to contain this within existing budgets e.g. by reducing spend and by increasing the pace and shortening the timescales of the workforce and service delivery reviews, this may not be fully achievable and we cannot ignore the fact that we may need to utilise the albeit reduced level of reserves that we hold.

Council will recall that in finalising the budget for 2016/17, and in reviewing the forecasts of future central government funding and addressing cost pressures in particular, the MTFS presented to Finance Council in February 2016 outlined a projected budget gap of £48million by 2019/20 alongside proposals to address this, see below:

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Total projected deficit following receipt of Local Government Finance Settlement (Feb 2016)	**26,600**	**34,900**	**41,600**	**47,800**
Proposals to close the budget gap approved by Finance Council (February 2016);				
Savings – (cumulative figures incl remaining elements of the September 2014 programme of £10.2 mill, the 2016/17 savings plan of £3.6mill, £13.0 mill workforce review savings and increases in income from fees and charges of £2.0 mill)	(13,800)	(23,800)	(28,300)	(28,800)
Council Tax – both General and Adult Social Care increases each year of 1.99% and 2% respectively	(1,700)	(3,400)	(5,200)	(7,100)
Revision of MTFS assumptions (incl pay and price inflation, interest rates, growth in council tax and business rates etc and change in the MRP (capital repayment) policy)	(7,900)	(7,200)	(9,000)	(11,300)
Approved Use of Reserves – both general and earmarked	(3,200)	(200)	-	-
Approved MTFS Budget Surplus/(Deficit)	**-**	**300**	**(900)**	**600**

3.3 Development of the MTFS – progress to date

Although at the time of writing this report work is yet to be undertaken on the implications of the Autumn Budget Statement of 23rd November, but based on the latest information available, we do not expect this to impact significantly on the strategies outlined above.

Council Tax

As we do not expect any significant change in the level of funding provided by central government, having accepted the 4 year settlement offer as approved at the last Council Forum meeting, we anticipate that a recommendation will be made to Finance Council to increase Council Tax by 3.99% i.e. the maximum increase permissible without the requirement for a referendum.

Identifying and addressing Cost Pressures

As reported in the Corporate Revenue Monitoring Report in November, we have already had to use both earmarked and unallocated reserves to address emerging pressures in 2016/17, some of which are of a recurring nature which therefore require further support in 2017/18 e.g.

National Living Wage provider increases in adult social care; these will need to be met from further savings.

In addition to the above, further cost pressures have been identified that were not built into the MTFS in February 2016, which require further review and development to ascertain the financial impact on the budget gap. The most significant pressures noted at this time are;

- Employer pension rate increases following actuarial triennial valuation of the scheme – potential increase in rates from 12.4% to 14.8% thereby increasing the annual cost by approximately £750k – £850k.
- Increase in the annual pension deficit recovery payment, expected to increase by £370k in each year.
- National Living Wage – the NLW was introduced on 1st April 2016 at a rate of £7.20 per hour; this is set to increase to over £9.00 by 2020. As seen this year, this will have a significant impact on the Adult Social Care Commissioning budget as social care providers are hit with an increase cost that they cannot absorb and so must either pass this on to their customers or face the risk of going out of business.
- Potential for further reductions in central government funding, i.e. above and beyond those already forecast in specific grants such as Public Health Grant
- Continuing pressures across demand-led services, in particular Adult Social Care
- The impact of continuing Welfare, Education and NHS reforms

Development of the Savings Programme

With regard to savings, much progress has been made since Finance Council in terms of both delivering the agreed programme and also in developing further plans at a more granular level to close the budget gap.

In respect of the £13.0 million savings required from workforce review and £2.0 million to be achieved through increases in fees and charges, these savings have been combined and consolidated into a single, Council wide £15.0million savings programme which all teams, departments and portfolios have worked to develop. To date plans have already been developed to deliver savings; some of these have been delivered or are well underway, some will be subject to reports from Executive Members in due course and some of which are presented to Policy Council for consideration and approval (as detailed in Appendix A).

A summary of the savings can be broken down as follows;

Savings	2017/18 £000	2018/19 £000	2019/20 £000
Workforce Reviews	6,289	7,042	7,163
Cost reductions	758	1,466	1,716
Service Cuts	560	560	560
Increased Income	3,675	3,925	4,125
Subtotal	11,282	12,993	13,564
Proposed savings through alternative delivery models and service changes requiring Policy Council consideration and approval	1,396	1,622	1,122
Total Savings Programme	12,678	14,615	14,686

4.0 The flexible use of capital receipts

In the 2016/17 funding settlement, in addition to the 4 year settlement offer, the Government also announced the facility for councils to use capital receipts more flexibly. Normally, capital receipts (i.e. those receipts of more than £10k resulting from the disposal of plant, property and equipment) can only be used to fund capital expenditure. However, under the flexibility proposed by government, councils may use such receipts to fund *'qualifying expenditure'* on a project where incurring up-front costs will generate ongoing savings.

‘Qualifying expenditure’ is expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners. Within this definition, it is for individual local authorities to decide whether or not a project qualifies for the flexibility.

The guidance published by Department for Communities and Local Government in March includes the following examples of qualifying expenditure whilst stressing this is not a prescriptive list:

- Sharing back-office and administrative services with one or more other council or public sector bodies;
- Investment in service reform feasibility work, e.g. setting up pilot schemes;
- Collaboration between local authorities and central government departments to free up land for economic use;
- Funding the cost of service reconfiguration, restructuring or rationalisation (staff or non-staff), where this leads to ongoing efficiency savings or service transformation;
- Sharing Chief-Executives, management teams or staffing structures;
- Driving a digital approach to the delivery of more efficient public services and how the public interacts with constituent authorities where possible;
- Aggregating procurement on common goods and services where possible, either as part of local arrangements or using Crown Commercial Services or regional procurement hubs or Professional Buying Organisations;
- Improving systems and processes to tackle fraud and corruption in line with the Local Government Fraud and Corruption Strategy – this could include an element of staff training;
- Setting up commercial or alternative delivery models to deliver services more efficiently and bring in revenue (for example, through selling services to others).

In the announcement, the government stated that for each financial year, a local authority should ensure it prepares at least one Flexible use of Capital Receipts Strategy. As a minimum, the Strategy should list each project that plans to make use of the capital receipts flexibility and that on a project by project basis details of the expected savings/service transformation are provided. The Strategy should report the impact on the local authority’s Prudential Indicators for the forthcoming year and subsequent years. The Strategy should be presented to Full Council for approval. The flexibility only applies to new capital receipts arising from 1st April 2016 until 31st March 2019 and Capital receipts in hand as at 31st March 2016 cannot be used for this purpose.

The intention is to present the strategy for use of these receipts in 2016/17 to Finance Council in February 2017 for approval.

6. POLICY IMPLICATIONS

The budget process is the mechanism by which the Council allocates resources so that it can achieve its policy objectives as agreed at Policy Council; the MTFS update and the facility to flexibly use capital receipts supports the budget setting process.

7. FINANCIAL IMPLICATIONS

The financial implications, as outlined above, will be reflected in the Budget 2017/18 and Medium Term Financial Strategy for 2017-2021 to be developed and presented to Finance Council in February 2017.

As is evident from the report, the Council faces a very difficult financial challenge; savings plans have been developed and must be delivered at speed to ensure delivery within the timescales and phasing above as reserves are rapidly diminishing and no longer provide a cushion against overspends and slippage; there is very little room for manoeuvre.

Strong budgetary monitoring and control together with swift implementation of the savings plans is essential to live within the funding envelope.

8. LEGAL IMPLICATIONS

The Council is legally obliged to set a balanced budget. The report outlines the work undertaken since February 2016 in the development and delivery of plans to ensure that this is possible and makes recommendation for approval of further savings options to facilitate delivery of a balanced MTFS for 2017-2021 based on the latest information available.

The Council is required to have regard to Statutory Guidance on the Flexible Use of Capital Receipts (March 2016) issued by the Secretary of State. This requires relevant authorities to prepare, publish and maintain a Flexible Use of Capital Receipts Strategy. The Guidance also states that the Flexible Use of Capital Receipts Strategy should be approved by full Council.

9. RESOURCE IMPLICATIONS

Decisions taken in respect of proposals contained within the report will affect the resources allocated to all service areas.

10. EQUALITY IMPLICATIONS

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

11. CONSULTATIONS

The proposals contained within the report will be subject to consultation with residents, businesses and partners and stakeholders as required.

Chief Officer/Member

Contact Officer: Louise Mattinson

Date: 1^{st} December 2016

Background Papers:

APPENDIX 1

MTFS £15.0 million Council Wide Savings Programme

Proposals for approval by Policy Council 1st December 2016

Portfolio	Saving	Decision	Description
Alternative Delivery Models			
ASC	£293,500 Effective from 1st Oct 2017	Policy Council	Fundamental review of in-house adult social care services for older people and adults with a learning disability. This review will incorporate Hopwood Court, Stansfeld and St Aiden's Short Break service and will determine alternative service delivery models to deliver efficiencies, maximise choice and control and explore the potential benefits from partnership with specialist service providers. Structured consultation and engagement with staff, service users and informal carers will form a key part of the review.
Children's, N&P, ASC	Saving total £500k across a number of areas	Policy Council	Review of Adolescent offer and Supported accommodation – review including (Adolescent Support, Youth Justice Service, Youth Services and supported accommodation including supporting People funding). Troubled Families savings were included in the Localities review. The service review will comprise of 2 strands; 1. A service delivery review and 2. A supported accommodation review, including supporting People (Children and Adults) 1. Service delivery review – led by Linda Clegg This review will look at efficiencies that can be brought about through more integrated service delivery whilst maintaining a strong focus on prevention/demand management. 2. Supported accommodation review - led by Sayyed Osman As part of the review we will also look at supported accommodation including the review of Supporting People. Residential provision per se is not under review; the review will look at wider supported accommodation, commissioned for Children in Need such as Nightsafe and the Foyer etc., not accommodation for Children in

			Care Also Supporting People funding for vulnerable adults.
Regen	Non-recurring saving of £500,000 in 17/18 and in 18/19	Policy Council	As the current Network Recovery Programme is scheduled to end this financial year, the proposal is to maintain investment expenditure in our Highways and associated infrastructure assets at a slightly reduced level in 17/18 and 18/19.
Service Cut Savings			
N&P	£178,000 Effective from 1st April 2017	Policy Council	**Community Safety – withdrawal of PCSO contribution** • Blackburn with Darwen currently has 38 PCSO's working as part of the neighbourhood and town centre teams. 16 of these posts are currently part funded by the council at a cost of circa £11'100 each, equating to a £178k contribution by the council per annum. • The original funding for PCSOs stemmed from what was the area based grant. Following its cessation by the coalition Government in 2010, the council chose to protect the PCSO contribution by making provision from the core community safety services budget. Given the continuing austerity affecting the council we have struggled to maintain this position as our options for savings have become tighter impacting on valued frontline and statutory services. • The council has consulted the Police at a senior level and the Police Crime Commissioner's office. • The consequence of this reduction will be fewer PCSO's available in Blackburn with Darwen. How many is to be determined as, having consulted the constabulary fully, they are considering their options while awaiting similar feedback from the other councils of Lancashire who are in a similar position to our own. The only East Lancashire council to confirm their position to date is Burnley borough council who will be ceasing their contribution.
Regen	£100,000 Effective from 1st April 2017 increasing to £150,000 from 1st April 2018	Policy Council	Reduction in public transport bus subsidies. Further reduction of £50,000 from 1st April 2018.