REPORT OF:	**EXECUTIVE MEMBER FOR FINANCE AND GOVERNANCE, ON BEHALF OF THE LABOUR GROUP**
TO:	**FINANCE COUNCIL**
DATE:	**1st March 2021**

PORTFOLIOS AFFECTED: ALL

WARDS AFFECTED: ALL

SUBJECT: Revenue Budget 2021/22, Medium Term Financial Strategy and Capital Programme 2021-2024

1. PURPOSE

To recommend to Finance Council the Budget Strategy and proposals for the Revenue Budget 2021/22, together with the Medium Term Financial Strategy (MTFS) and Capital Programme for 2021-2024.

2. RECOMMENDATIONS

To approve the proposals for the Revenue Budget for the financial year 2021/22 as outlined in this report and specifically;

2.1 To approve an increase in Council Tax rates of 1.99% (i.e. a weekly increase of £0.60 for Band D Council Tax payers and of £0.40 for Band A Council Tax payers);

2.2 To approve an additional increase in Council Tax rates of 2.0% to meet the costs of Adult Social Care, as provided for in central government guidance and the associated calculation of Local Authority Core Spending Power, (i.e. a weekly increase of £0.60 for Band D Council Tax payers and of £0.40 for Band A Council Tax payers);

2.3 To note the individual portfolio controllable budgets for 2021/22 as set out in **Appendix A;**

2.4 To note the financial risks and uncertainty arising from the ongoing impact of the Covid-19 pandemic both within the 2021/22 budget presented, and the MTFS covering the period through to 2024;

2.5 To note the significant risks and uncertainty that underpin the assumptions contained within the MTFS for the financial years 2022/23 and 2023/24, due to the lack of information that is yet to be provided by central Government including;

- the future mechanism for Business Rates Retention,
- the Fair Funding Review and any resulting redistribution of resource that may follow,

- the Government's much delayed plans to address the future of social care, which are intrinsically linked to the future plans for the integration of health and adult social care and the potential changes in associated funding streams

2.6 To approve the utilisation of the Earmarked Reserves, as detailed in the *Robustness of the 2021/22 Budget and the Recommended Level of Reserves Report;*

2.7 To delegate authority for the agreement of hourly rates and contract changes for social care providers for 2021/22, arising from the impact of the increase in the National Living Wage, to the Executive Member for Adult Services and Prevention, in consultation with the Executive Member for Finance and Governance, the Director of Finance and the Strategic Director for Adults and Health;

2.8 To approve the proposals for the Capital Programme for the period 2021-2024 as outlined in **Appendix C** and **Section 8** of this report;

2.9 To approve the draft Medium Term Financial Strategy 2021-2024, as per **Appendix D** of this report;

2.10 To approve, subject to recommendation **2.1** and **2.2** outlined above, the consequent Council Tax levels detailed in the formal resolution within the report from the Director of Finance;

2.11 To agree that the current Local Council Tax Support Scheme remains unchanged for 2021/22 as per section **5.4.3**;

2.12 In exercising the flexibility given by central government to increase the premium charge on empty properties, to note the decision taken at Finance Council in February 2019 to increase the premium charge on empty properties for those which have been vacant for ten years or more to 300% with effect from 1st April 2021;

2.13 To approve the Pay Policy Statement prepared in accordance with the requirements of Section 38 of the Localism Act 2011, to have effect for the year 2021/22 unless replaced or varied by the Council, as set out in **Appendix E**.

3. BACKGROUND

The programme of austerity that began in 2010/11, signalled the start of an unprecedented level of financial challenges across the public sector which has led to significant cuts across many areas. As previously reported, the borough has experienced one of the largest funding reductions of all authorities in the country in the period since then, despite being ranked as 9th in a list of the most deprived local authorities in the country.

Over the past year the position has become even more challenging in having to respond from a difficult financial base to the Covid-19 pandemic. In the early stages of the pandemic, as costs spiralled and losses of income escalated, it appeared highly likely that without additional Government support the Council would be unable to manage within the existing resources available, and as such a Section 114 notice was a very real prospect. However over the course of 2020/21, additional funding was provided to assist in meeting the costs of Covid-19 and some of the losses incurred in sales, fees and charges, albeit drip fed through, which alleviated the financial risk as the year progressed.

One of the key reasons that a Section 114 seemed likely was due to the low level of reserves that the Council holds; the extreme financial challenges throughout the period of austerity, coupled with the rising demand for services due to high levels of deprivation, have meant that reserves have been utilised in order to deliver services. As at 31st March 2020, when compared to all other 55 Unitary Authorities, Blackburn with Darwen had the 13th lowest level of reserves as a percentage net of revenue expenditure.

Since 2010, in balancing the Council's finances to meet the financial challenges, 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 2020/21 and a Medium Term Financial Strategy (MTFS) for the period through to 2022/23 back in February 2020, this was predicated on some very challenging assumptions including;

- delivery of the remaining savings projects in scope and agreed at that date
- development of a further savings programme in order to address the projected budget gap for 2021/22
- a general increase in Council Tax in each year covered by the strategy
- absorption of inflationary, non-pay increases, across all budgets

The MTFS approved by Finance Council in February 2020 identified a budget gap of £2.784 million for 2021/22 based on the financial data and demand information available at that time. However as 2020/21 has progressed, the position has developed and the assumptions have been updated due to the impact of the pandemic locally, nationally and globally, and following the release of the Final Local Government Financial Settlement on 10th February 2021.

Details of the movement in the Budget Gap for 2021/22 are set out in **Appendix B**; this reflects changes in funding and income, in cost pressures and key assumptions around inflation and collection rates for Business Rates and Council Tax for example. Some of these variations are recurring and have been carried forward into the baseline of the MTFS for 2022/23 and beyond, however some these are non-recurring, particularly in respect of additional funding, resulting in 'one-off' improvements in the 2021/22 position which will have to be addressed over the course of the financial year to balance the MTFS going forward through further savings, re-prioritisation of resources and from additional income.

The assumptions for 2021/22 contained within the MTFS back in February 2020 were heavily caveated given the uncertainty of the future Local Government funding regime. The Government has for several years continued to state its intention to fundamentally change the way in which Councils are funded through;

- a complete review and reset of the funding requirements of each council area through a "Fair Funding" review,
- a move to 75% Business Rates Retention,
- the withdrawal of Revenue Support Grant (RSG)
- the withdrawal of some other government grants (as yet to be determined) and

- a review of the funding of Adult Social Care.

Whilst the demands of Brexit, a change in Prime Minister in July 2019, and a 'snap' general election in December 2019, brought a halt to the development of any of these changes in 2019/20, Covid-19 has likewise stalled their progression in 2020/21 and the future structure of local government finance remains as uncertain as ever.

As reported to Finance Council in each of the past 3 years, 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 2024/25, however given that the Government has only provided a 1 year settlement, and has still not shared proposals for their intended approach for calculating any future local government finance settlements, the future funding arrangements beyond 2021/22 are impossible to plan for with any certainty. Therefore in preparing this MTFS we have focused on the year 2021/22 until more clarity is provided over the next 12 months.

Whilst we have included figures for 2022/23 and 2023/24 within this report, these are largely based on the continuation of current, recurring funding streams, together with estimates of the future cost of existing services and the financial impact of emerging cost pressures, all of which are detailed in **Appendix D**. We will therefore update Council on any changes to these assumptions as further information is provided to us over the course of 2021/22.

This paper sets out the Labour Group's proposed Revenue Budget, Capital Programme and associated Council Tax level for 2021/22 together with the MTFS for the period 2021-2024, 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 2021/22.

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 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 Provisional Local Government Finance settlement was issued on 17th December 2020 and the Final Settlement, was laid before Parliament on 10th February 2021.

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 based on the Government's assumption that councils will apply the maximum increases available to them for the year ahead;

Core Spending Power	2020/21	2021/22	Change	Who Pays
	£'m	£'m	£'m Incr/(Decr)	
Settlement Funding Assessment (SFA) (predominantly business rates funding)	58.1	58.2	0.1	Govt
Council Tax Requirement	55.9	59.6	3.7	CT Payers
Improved Better Care Fund	8.1	8.1	-	Govt
Social Care Support Grant	4.9	6.6	1.7	Govt
New Homes Bonus	1.0	0.8	(0.2)	Govt
Lower Tier Services Grant	-	0.3	0.3	Govt
Compensation for under-indexing the business rates multiplier	1.8	2.3	0.5	Govt
Total	**129.8**	**135.9**	**6.1**	

The Government's calculation does not make any allowances for inflation, demand or cost pressures which are expected to be self-funded by the Council. The figure shows that whilst Government support has increased by £6.1m, with some additional funding to provide support for both adults and children's social care pressures and through increased business rates income, £3.7m must still be raised from Council Tax Payers to meet the Government's published spending power figure for Blackburn with Darwen.

The figures above assume the Council will apply both a general council tax increase of 1.99% and the maximum permissible 3% precept in respect of adult social care; however the recommendation made to Finance Council is to approve a general increase of 1.99% and an adult social care precept of 2%, in recognition of the financial challenges that our residents face in these difficult economic climate.

As such, the Council will not achieve the Core Spending Power outlined above.

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.

SFA is defined as the sum of a local authority's;

- Baseline Funding Level (BFL) and
- Revenue Support Grant (RSG)

*(see **Section 5.3.2** below)*.

The BFL is split between resources received via:

- an assessment of what the Government believes the Business Rates will be for the borough, and the Council's share of this, plus
- a top-up element provided by central Government, as detailed below

	2020/21 £m	2021/22 £m
Settlement Funding assessment (SFA)	***58.1***	***58.2***
Funded by**:**		
Revenue Support Grant	*13.5*	*13.6*
Business Rate Baseline Funding Level (BFL)	*44.6*	*44.6*
Comprising		
- notional level of Business Rates retained by BwD (the Business Rates Baseline)	*20.3*	*20.3*
- Top-up funding provided by Government	*24.3*	*24.3*
Increase in SFA		***0.1***

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 reduction in the grant to date has been significant, from a figure of £49.6m in 2015/16 down to £13.6m in 2021/22.

5.3.2 Local share of Business Rates

Under the current 50% business rates retention system, at an individual authority level, the amount of business rates income retained is determined by the relationship between its Baseline Funding Level (BFL) and Business Rates Baseline (BRB) where;

- the BFL is the level of business rates income that the government determines that the authority needs to meet its 'Relative Need' (as determined following the national Relative Needs Assessment' exercise undertaken in 2011) and dependant on the total resources available within the national Local Government Finance Settlement and

- the Business Rates Baseline is the amount of business rates income an authority is predicted to raise.

Where a local authority's Business Rates Baseline is greater than its Baseline Funding Level, then the authority pays the difference as a 'tariff' which is then redistributed to those authorities where their Business Rates Baseline is less than their Baseline Funding Level; the latter is the case in Blackburn with Darwen and the payment received is known as the 'Top-Up'.

The system now requires resetting in order to ensure that the distribution of resource remains aligned with changes in 'Relative Need' over the past 10 years.

Within the current system the mechanism for redistribution of funding is as follows;

- the Council is able to retain 49%
- 1% is passed to the Fire Authority and
- 50% (the central share) is paid over to the Government.

The Business Rates multiplier (unit charge) is subject to an inflationary uplift each year, at a rate determined by the government and applied nationally for all businesses to pay.

Any gain or reduction in Business Rates, above or below the Government's figure of what they estimate the authority will receive (as detailed in the table above) is also passed on to the three parties in the same percentage shares.

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%; i.e. the loss to the Council is capped at 7.5%.

Future scheme

A commitment to implement a new BRR model has been given for several years; at the Spending Review in September 2019 the Government confirmed that it would aim to implement a 75% BRR model in 2021/22 to provide further time to work with the sector on options for delivering the review of relative needs and resources, and in reforming and improving the business rates retention system, including addressing such issues as backdated appeals on local authority income. Due to the impact of Covid-19, this target date has slipped again and we are still unsure as to what the model will look like, how it will operate and from what date it will be effective.

Articles in the recent press have indicated that the government may indeed rethink the use of Business Rates as a funding model for local government, with suggestions that alternative property related taxes, the introduction of an online sales tax and an 'excess profit' tax could be considered as potential options. Although uncertain, we expect further information to be provided on the future direction of travel in this area as the new financial year progresses.

For the purposes of preparing the MTFS for 2022/23 and 2023/24, we have assumed that the mechanics of the 50% BRR scheme currently in operation, will continue to apply.

The associated income from this is included in **Appendix D - Section 5.0**

5.4 Council Tax

5.4.1 Council Tax – general

Blackburn with Darwen has the lowest Council Tax in Lancashire in 2020/21.

Council Tax levels had remained frozen at their 2010/11 levels for 5 years until 2016/17 when, given the scale of the budget gap, the Council adopted a 1.99% increase (i.e. the maximum general increase permitted under the Government's referendum cap), alongside reductions in expenditure and increases in other available income streams.

The referendum cap, set by Government, remains at 2.0% for 2021/22 and an increase of 1.99% has been included in the Budget recommended for approval to Finance Council this year; this is in line with **Recommendation 2.1** above and was assumed within the MTFS presented to Finance Council last year.

The MTFS also assumes increases in Council Tax of 1.99% for 2022/23 and 2023/24.

The Government has repeatedly stated its wish for Councils to progress quickly towards becoming self-sufficient through the income that they generate, of which Council Tax is the most significant source of income. This is difficult to achieve in the borough given the profile of the properties that are chargeable to Council Tax; despite the impact of the increase in the number, type and size of properties built through the Housing Growth Programme, the profile of our housing stock is significantly weighted towards those which generate a lower yield in Council Tax 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
As at 30th November 2020								
34,789	9,309	8,423	4,674	2,173	805	571	69	60,813
57.2%	15.3%	13.8%	7.7%	3.6%	1.3%	1.0%	0.1%	100.0%
As at 30th November 2019								
34,673	9,259	8,354	4,673	2,111	794	573	69	60,506
57.3%	15.3%	13.8%	7.7%	3.5%	1.3%	1.0%	0.1%	100.0%

5.4.2 Council Tax - 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 utilise the flexibility offered by Government to increase Council Tax in 2016/17 by an additional 2% without holding a referendum. This additional precept would be used specifically to assist in meeting expenditure on Adult Social Care functions. The Government has continued with this approach in providing continuation of this flexibility;

- in 2017/18, offering councils the flexibility to apply a precept of up to 6% over the period 2017/18 to 2019/20, subject to a maximum increase of 3% in any one year, and a total cap of 6% over the period;

- in 2020/21, offering councils the flexibility to apply a precept of up to 2%.

In each year, the assumption was made within the Core Spending Power calculation, produced by the Government, that Councils would apply the maximum amount. Given the scale of the mounting financial and demand pressures on adult social care services, the Council has utilised these flexibilities from 2016/17 through to 2020/21.

In the Financial Settlement for 2021/22, and assumed within their calculations of Core Spending Power, the Government has again introduced the flexibility to apply a further precept of up to 3% in 2021/22 for every authority providing social care.

This approach has been widely criticised across local government and the national media, as it is seen as regressive and running counter to the notion of 'levelling up'; in essence, the Government is forcing councils to increase Council Tax rather than offering more grant. Lower house prices mean that less affluent areas raise less income from these rises, while lower income families face contributing a higher proportion of their income than their more wealthier counterparts.

The issue is a very difficult one for the Council, in trying to balance the persisting cost pressures and demands alongside the ability of our residents to afford this in these difficult economic times; as such, the recommendation contained within the report is to limit the precept to 2% in 2021/22, rather than applying the full 3% that the Government has assumed in our notification of Core Spending Power. The MTFS assumes that the balance of 1% will be applied the following financial year, i.e. in 2022/23.

5.4.3 Local Council Tax Support Scheme

Since the start of the pandemic, the number of residents claiming Council Tax Support has increased from 10,196 in March 2020 to 11,561 in January 2021; an increase of 13.4%.

Within the Settlement, funding has been provided for an additional £2.126 million to support the Council in meeting the increase in costs in this area, and in supporting those residents in financial difficulties over the course of the pandemic and through the recovery thereafter. Given the economic uncertainties, we expect to see the number of claimants continue to rise as increasing unemployment will be a significant post-Covid risk. The additional funding has therefore been held within an Ear-marked Reserve to support our most financially vulnerable and will be fed through into the budget, to meet additional costs in this area as required, over the course of 2021/22.

We continue to work in partnership with the Department of Work and Pensions (DWP) and Shelter, having contracted with the latter to provide additional support in this area and to support residents in their transition to Universal Credit and in ensuring, where eligible, that they claim Council Tax Support. This is to help minimise the adverse financial impact that Universal Credit may have on our residents and to ensure that as far as possible, this doesn't add further burden to those in dire financial difficulty.

If the Council wishes to make any changes to the Local Council Tax Support scheme for 2021/22, it is legally obliged to do so prior to 31st March 2021; in light of the current economic circumstances, no changes are proposed and the recommendation is to continue with the existing scheme for the new financial year.

5.5 Funding for Social Care

In March 2017 the Government announced that it would issue a Green Paper on Social Care for public consultation. Although the Prime Minister said in January 2020 that he would bring forward a plan for social care 'within the year', for implementation within this parliament, i.e. over the next 5 years, the pandemic has meant that this has been further delayed.

The Government has widely acknowledged that the increase in demand in this area, over the years is unsustainable and that greater integration between health and social care is essential to addressing this; the Covid-19 crisis has only served to lay bare the magnitude of the problem and it remains one of the most pressing issues for Government to address over the coming year.

The detail below outlines the short term measures that have been introduced to assist in trying to address the funding shortfall in the interim;

5.5.1 Improved Better Care Fund

The Improved Better Care Fund (iBCF) was introduced in the Financial Settlement of 2017/18, funded in part through reductions in the New Homes Bonus allocation, to provide specific funding for adult social care. In 2021/22, as part of this year's one year settlement, the iBCF has been maintained at the same level as in 2020/21; £8.1million.

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 the iBCF is pooled and monitored, together with the existing Better Care Fund.

Beyond 2021/22 there is no certainty for the future of the iBCF funding but in the absence of any further information, for the purposes of the MTFS it has been assumed that this will continue into 2022/23 and 2023/24 at the same level as in 2021/22; given the magnitude of the financial pressures on adult social care it is difficult to see how this can be addressed without a similar level of government funding being provided as an absolute minimum.

5.5.2 Adults and Children's Social Care

In light of the persistent and significant social care pressures that local authorities have continued to face, the government provided additional resources in the form of the Social Care Support Grant for 2018/19, 2019/20 and 2020/21 to support both adults and children's social care.

In the one year funding settlement for 2021/22, this has continued with an additional £300 million made available nationally resulting in funding for BwD as follows:

	2020/21 £m	2021/22 £m
Social Care Support Grant	4.93	6.55

It has been assumed that the funding will continue beyond 2021/22, given the pressures on social care, but that the amount will revert to the level in 2020/21 for both 2022/23 and 2023/24.

5.6 Dedicated Schools Grant (DSG)

DSG is paid in support of the local authority's schools budgets and funding is now allocated in four notional blocks:

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

Funding within the Schools Block, subject to certain prescribed exceptions, cannot be transferred to other DSG blocks. The other notional blocks are not individually ring-fenced, but the overall DSG grant is ring-fenced in total, and local authorities are responsible, in conjunction with their local Schools Forum, for determining the split of the funding between their own central expenditure and the Individual Schools Budget.

The funding in the Schools Block is allocated through the national school funding formula (NFF), which seeks to ensure that all schools are allocated funding fairly to meet their pupils' needs.

Although local authorities still have some autonomy to allocate their Schools Block funding using a local formula, data suggests that a significant proportion of local authorities have now moved towards allocating their funding for schools based on the national funding formula, and it is likely that application of the full NFF methodology will become compulsory (a “hard” NFF will be introduced) by financial year 2025/26.

In anticipation of this, the factors used in the Blackburn with Darwen (BwD) schools funding formula mirror the NFF in 2021/22.

Significant changes across the remaining DSG blocks are as follows:

- The High Needs Block will provide an underlying increase of at least 8% per head of population for every local authority, with maximum gains of 12%.

  The Government has increased High Needs funding for the second year in a row in recognition of the increased pressures experienced by many local authorities across the country arising from the growth in the number of pupils with special educational needs. For BwD the High Needs Block is expected to increase by 11.35%, which equates to £2.341m in cash terms. This funding will support the ongoing pressures within our High Needs Block.

- The Early Years Block includes an increase in the hourly rate of 6p for three and four year-olds entitlements, and 8p for two year-old entitlements. BwD will pass this increase directly onto our early years providers.

- The Central School Services Block will continue to fund all local authorities for the ongoing responsibilities that they hold for all schools. For the second year in a row however, there will be a 20% reduction in the element of funding that some authorities receive for “historical commitments” made prior to 2013/14. This is in line with the Government’s policy to fully unwind this funding over time.

Changes to the blocks of funding within DSG which impact directly on the Council have been included within the MTFS. All other funding changes are included within the DSG allocations, which are calculated within each block and agreed with Schools Forum where required. All funding decisions taken by Schools Forum are published in accordance with legislation.

5.7 Public Health

At the time of writing this report, we are still awaiting an announcement on the Public Health Grant allocation for 2021/22. In 2020/21, as in previous years, this was a ring-fenced grant to the Authority and as such, any increase or reduction in funding was offset by a corresponding increase/decrease in expenditure. It has been assumed this mechanism will remain in place for 2021/22.

In 2020/2021 the grant increased by £0.504 million to £14.9 million to reflect the costs of the NHS Agenda for Change; it is assumed that the amount of grant to be given to Blackburn with Darwen in 2021/22 will remain at the 2020/21 level.

5.8 New Homes Bonus and Growth

5.8.1 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. Payment of the bonus is only paid on housing growth above a baseline of 0.4%; growth below this level does not qualify for a bonus allocation.

The length of time that the bonus is paid for, for each new home built, has reduced from 6 years when it was first introduced in 2011/12, down to 5 years with effect from 2012/13 and then down to 4 years from 2014/15; for new homes completed in 2020/21 and in 2021/22, the bonus is only paid for one year, i.e. only for the year in which the build was completed.

The Government has set out its intention to hold a consultation on the future of the New Homes Bonus, with a view to implementing reform in 2022/23. Given the uncertainties around this funding, the MTFS assumes we have no new NHB in future years beyond that already awarded for 2021/22 and previous years.

The figures released within the Finance Settlement have been incorporated into the 2021/22 budget as follows, with the figure for 2022/23 being the final year of the bonus 'earned' in 2019/20;

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
New Homes Bonus	0.999	0.825	0.185	-

5.8.2 Growth Agenda

The Council remains committed to delivering a more prosperous Borough and as such, has invested in a Growth Team to bring focus to all development activities within the area, and to work with all landowners, private developers and funding agencies to bring forward residential, commercial, town centre and infrastructure projects; these projects support the MTFS through increases in Business Rates, Council Tax and New Homes Bonus.

The Council has welcomed the announcement that Darwen is one of 101 towns across the country invited to apply for £3.6 billion of Government funding. The new Towns Fund is earmarked for regeneration, skills and enterprise infrastructure and for improving connectivity and would build on our investment to date to unlock new regeneration opportunities. A Board has been established to help shape plans and develop a bid for over £25 million of funding to be spent transforming Darwen, the progress of which will be reported as this work develops.

5.9 Fees and Charges

Executive Members, in conjunction with Chief Officers, regularly review all fees and charges for their portfolios. The Council has delegated authority to Chief Officers, in consultation with the relevant Executive Members and the Director of Finance, 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 over the last few years, although it is recognised that many of these services have been significantly impacted by the pandemic over the last 12 months and will take some time to recover and revert back to their pre-Covid activity levels.

6. KEY ISSUES - EXPENDITURE

The MTFS for 2021/22, as presented to Finance Council in February 2020, identified a budget gap of £2.784 million, based on the financial data and demand information available at that time. However as 2020/21 has progressed, the position has developed and the assumptions have been updated due to the impact of the pandemic, and following the Final Local Government Financial Settlement confirmed on 10th February 2021.

Details of the movement in the Budget Gap for 2020/21 are detailed in **Appendix B** to this report.

6.1 Portfolio Budget Pressures

In preparing the budget for 2021/22, and in trying to develop the MTFS across 2022/23 and 2023/24, despite the significant uncertainties regarding future funding mechanisms and the impact of this on the Council's level of resources, we have reviewed the budget pressures faced across all of the portfolios and modelled the impact of actual and potential reductions in funding noted above.

Over the course of 2020/21, work has continued to re-align budgets, by reviewing income and expenditure within each portfolio, identifying cost pressures and shortfalls against income targets, and conversely identifying any areas where budget could be reallocated, i.e. due to recurring reductions in expenditure.

Whilst the Council is recommended to approve a balanced budget for 2021/22, this is predicated on a set of challenging assumptions, including the containment of all emerging, non-budgeted cost pressures over the course of the year within each portfolio.

An overview of some of the most significant cost pressures and risks within the portfolios are outlined below.

6.1.1 Adult Services and Prevention

2020/21 has seen an increase in demand for adult social care services, along with an increase in the complexity of cases and an increase in the costs within the care sector. However due to the impact of the pandemic, and the Government's response, the portfolio has seen significant fluctuations in spending due to several factors including;

- changes in the hospital discharge guidance for the discharge of patients into residential and nursing care, together with hospital admission avoidance costs, have been paid directly by the NHS for periods of time during the crisis;
- Continuing Health Care, Joint Funding Frameworks, along with financial assessment and charging policies, have also been suspended for certain periods of time.

As each process has been restarted, the adult social care department has seen an increase in referrals, assessment and care costs, together with usual winter pressures; these costs are expected to continue into 2021/22.

During the year the portfolio has also incurred significant cost pressures in supporting the care sector to manage the pandemic. These have included provision of PPE and additional staffing, infection prevention control and occupancy payments. Whilst some costs have been funded through specific Covid-19 grants from Government, other costs and issues faced by providers during the pandemic will have an enduring impact on the care market and the price of care in the future. Covid-19 his resulted in a change to the care economy and a general increase in the acuity of care needs. As such, the Council is beginning to see an increase general care costs that is much higher than in previous years.

Given this position, the costs of social care provider fee uplifts in 2021/22 are expected to be significant. Whilst the announcement of the increase in the National Living Wage to £8.91 in 2021/22, an increase of 2.2% on the previous financial year, is lower than in previous years, given the lack of parity in provider rates across the Lancashire and South Cumbria Health and Social Care system, additional costs are expected in Blackburn with Darwen. We are working to narrow the gap with our near neighbours so that we can reduce the risks given the potential for some providers to exit the market thereby impacting on our ability to meet our statutory duties. It will therefore be necessary to provide an uplift in 2021/22 which narrows the gap in fees paid across the system, the cost of which has been included in the MTFS.

A comprehensive range of demand management strategies and alternative ways of delivering services remain in situ within the portfolio to contain ongoing financial pressures from increased demand and demographic change. Every effort will be made to contain demand over the course of 2021/22, and to progress our partnership working across the Health and Social Care system to maximise efficiencies.

6.1.2 Children, Young People and Education

The financial position during 2020/21 for the Children, Young People and Education portfolio has seen a significant improvement compared to that reported in 2019/20. The new Duty and Advice Service has continued to perform well and has resulted in a sustained reduction in the number of cases being referred into the service. This in turn has seen more manageable caseloads for social care staff within the assessment and safeguarding teams, with the result being a reduction in both sickness absence and turnover of staff, as well as enabling improved quality of social work throughout the service.

Placement costs for children in care have also significantly reduced in 2020/21, with forecasted expenditure against the externally commissioned placements budget being £2.2 million less than in 2019/20. The 2020/21 outturn position is expected to improve further still due to the part year introduction of a tri-partite agreement with the NHS to fund a proportion of costs incurred in relation to children with complex health needs. This follows a piece of work undertaken by the NHS in collaboration with local authorities across Blackburn with Darwen, Blackpool, Lancashire County Council and Cumbria County Council, due to a recognition from SEND inspections that there has been very little joint commissioning around placements for young people with complex needs. This agreement is expected to continue into 2021/22 where the impact on our budgets will be greater as the agreement will cover the full financial year.

There remain however continuing pressures against the Special Guardianship Order (SGO) budget and these will only increase in 2021/22 as the number of children placed on an SGO is expected to increase, given current demand pressures. As in previous years, the portfolio will look to reallocate its existing resources wherever possible in order to bolster the SGO budget, however it is expected that this will remain an area of concern going forward.

During the year the portfolio has incurred substantial cost pressures in relation to Covid-19 and there remains uncertainty around how the pandemic will affect both the numbers of children coming into care, along with any ongoing related expenditure. Whilst the numbers of children in care have reduced in 2020/21, it remains to be seen if the number of referrals will increase as we return to a state of ‘normality’. The financial impact of Covid-19 will continue to be closely monitored over the course of 2021/22.

6.1.3 Environmental Services

The Environment team has faced significant challenges during the pandemic, with fly-tipping increasing by approximately 60% during this period, resulting in an increase in complaints. This has also posed difficulties for the waste and recycling teams accessing back streets due to the amount of waste left in back streets obstructing access. Progress to address the issues has been frustrated by the closure of the courts which has created a backlog in prosecutions. Due to the pandemic and the resulting increase in home working and school closures, we have seen an 8% increase in the amount of residual waste generated across the borough from household waste collections, fly-tipping and street cleansing waste, compared to the tonnages collected the previous year.

We expect this to be a pressure that will carry over into 2021/22 and whilst all efforts have been made to tackle the increase within existing resources, this continues to prove a challenge and so additional provision has been made within contingency to provide support for this if or when required.

6.1.4 Growth and Development

The portfolio faces significant pressures in relation to the Markets and Highways services. The pressures on Highways are being managed in 2020/21 through a realignment of budgets and the pressures on Markets are largely income losses as a result of Covid-19 for which the Council can claim back from Government 75% of the losses incurred. The pressures are expected to persist into 2021/22.

6.1.5 Leisure, Health and Wellbeing

Leisure centres and venues have been significantly impacted by the pandemic, having had to close at the end of March 2020, only to reopen and then be closed again to comply with national & local restrictions and then due to a second and a third national lockdown.

For the short periods time that the facilities were allowed to open, they have all operated at well below normal capacity levels, in order to comply with the Covid-19 regulations. This has had a hugely detrimental impact on income levels for 2020/21, and it is widely acknowledged that these pressures will continue into 2021/22. Once the current lockdown is eased, and facilities are able to re-open again to the public, it is anticipated that it will take a significant period of time before attendance/occupancy is back to pre-Covid levels. This presents a significant risk to the portfolio for the coming year and will be tracked as we move though 2021/22.

6.1.6 Finance and Governance

The portfolio has faced significant pressures, primarily due to the current retail trading climate which has impacted on the income receivable from the Council's share of the Mall, and also due to vacant space at Cathedral Quarter. 2021/22 is expected to be a difficult time for all Town Centre businesses which in turn presents a risk for the income generated from the Council's Commercial Property portfolio.

6.2 Other Pressures

6.2.1 Pay Awards and Pay Policy

Pay Award

In the 2020 Spending Review of 25th November 2020, the Chancellor announced a pay freeze for public sector workers in 2021/22, with the exception of some NHS staff and over 2.1 million public sector workers whose earnings are less than £24,000, who will receive a minimum £250 increase.

It has been noted by Employers and Unions alike that the Government has no formal role in the decision around annual local government pay increases, as these are developed through negotiation with the Trade Unions via the National Joint Council (NJC) for local government services. Therefore the Government cannot automatically impose a pay freeze on local government unless it uses a legislative route to do so.

As such, given the risks of this, provision has been made within the 2021/22 budget for a 1.5% pay award, which is 0.5% less than the assumption presented to Finance Council in February 2020 for 2021/22.

As is our standard approach, it is also assumed that the costs of any incremental progression will be absorbed, or met from efficiencies and savings made within the individual portfolios.

Pay Policy

The Pay Policy Statement has been prepared in accordance with the requirements of Section 38 of the Localism Act 2011, to have effect for the year 2020/21 unless replaced or varied by the Council. The Pay Policy Statement is attached at **Appendix E**.

6.2.2 National Living Wage

Increases have been confirmed in the National Living Wage (NLW) level of £0.19 to £8.91 with effect from 1st April 2021 (for workers aged 23 and above). Increases have also been confirmed in the National Minimum Wage levels as follows;

- Increase from £8.20 to £8.36 per hour for 21-22 year olds
- Increase from £6.45 to £6.56 per hour for 18-20 year olds
- Increase from £4.55 to £4.62 per hour for 16-17 year olds
- Increase from £4.15 to £4.30 per hour for apprentices

These increases have significant impact on our external providers, specifically those providing social care, including residential and domiciliary care.

The commissioning budgets included within the 2021/22 Budget, include a provision for increases in provider hourly rates arising from the increase in the NLW with effect from 1st April 2021. Other factors will also be included in the final provider hourly rates for 2021/22 but until discussions to determine the impact of these are held with providers, and contract negotiations are completed, it is not possible to precisely quantify the cost at this stage.

Provision has also been made within the MTFS for increases in the NLW in 2022/23 and 2023/24, however as indicated above, it is not possible to quantify the precise financial impact due to changes in demand and the care provider market.

It is recommended that delegated authority is given to the Executive Member for Adult Services and Prevention, in consultation with the Executive Member for Finance and Governance, to agree the hourly rates and contract changes with social care providers in 2021/22, applicable from April 2021, as detailed at **Recommendation 2.7**.

6.2.3 Pensions

The triennial actuarial valuation of the Local Government Pension Scheme in 2019, identified an increase in Employer Pension contributions from 14.8% to 17.4% for the Blackburn with Darwen Borough Council section of the fund for the 3 years 2021/22, 2021/22 and 2022/23; this is required to meet the projected increase in the value of the future liabilities of those staff currently working in the organisation and who are in the pension fund.

The Council agreed, following discussions with the Scheme Actuary and the Head the Lancashire County Pension Fund, and following agreement by the Lancashire Local Pension Board, to take a stepped approach to implementing the increase over the 3 years whilst continuing to repay the scheme deficit over an agreed 16 year repayment period, of which 15 years now remain.

2021/22 will see an increase in Employer contributions from 14.8% to 16.6%, increasing to 17.4% in 2022/23. The MTFS assumes no further increase beyond 17.4% for 2023/24 however we must await for the results of the next triennial actuarial valuation to know if this assumption holds.

6.2.4 Apprenticeship Levy

The 2021/22 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, which in the main have assisted in supporting the costs of training for almost 200 apprentices that the council has recruited into the workforce since 2017/18; we intend to recruit more apprentices during 2021/22 as part of our workforce development strategy. As in previous years, support of approximately £0.5m is included within the 2021/22 Budget to corporately fund the salary costs of a rolling programme of approximately 20 apprentices each year. Any apprentices employed over and above this number will be funded from within the respective portfolio budgets.

6.2.5 Inflation

Based on the information released by the Office of National Statistics in January 2021, the Consumer Price Index (CPI) for December 2020 stood at 1.2% (Dec 2019: 1.4%), whilst the comparable figure for the Retail Price Index (RPI) was 1.2% (Dec 2019: 2.2%.

Within the 2021/22 Budget and MTFS, provision has only been made for specific inflation on the 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.

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.

6.2.6 Interest and Minimum Revenue Provision

The Bank of England’s Bank Rate was cut at in March 2020 at the start of the Covid-19 pandemic, and is expected to remain at current levels in the near future. This has been reflected in decreasing investment and borrowing interest rates over the course of the 2020/21.

Interest estimates are based on the Council continuing to use short-term borrowing, given the expected duration of the loans required and the lower interest rates achievable using short-term borrowing. The Council’s forecast average short-term borrowing rates in 2020/21 are 0.78%.

	2021/22 £m	2022/23 £m	2023/24 £m
Interest and Investment Income	(0.015)	(0.015)	(0.015)
Debt Interest Payable	12.286	12.750	12.496
Minimum Revenue Provision	6.016	6.585	6.832
TOTAL Net Interest Cost	18.287	19.320	19.313
Forecast Capital Spend Financed by Borrowing	13.307	3.400	3.650

Debt interest payable and Minimum Revenue Provision (MRP) increase as a result of capital spending funded by borrowing. The Council has undertaken a review of its MRP policy with its Treasury Management Consultants, which has led to a proposed change in policy for some elements of the MRP calculation. The proposed changes in MRP policy are reflected in the figures detailed above, and are detailed in the Capital Strategy Report, and supporting Appendices, on the Finance Council Agenda.

7. SUMMARY

In light of the Local Government Finance Settlement for 2021/22 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 2021/22, 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 risks presented from the Covid-19 pandemic both during the crisis, and in the recovery beyond

The MTFS highlights a budget gap for 2022/23 of £5.6million rising to £8.3million in 2023/24, although as noted throughout the report, there is significant uncertainty around the assumptions used to produce the figures in both these years given the lack of information provided by central Government at this time.

We join with colleagues in other authorities, through our membership of SIGOMA (Special Interest Group of Municipal Authorities) and through the LGA (Local Government Association) to lobby government for an urgent focus on the short and long term funding arrangements for local government; without this, it is impossible to plan financially not only in terms of our growth and development, but also in respect of identifying further cost reductions or service redesign and delivery; the current short-term, stop-gap measures are no longer sustainable.

Nonetheless, we will continue with the strategy that has served us well throughout the period of austerity to date, by continuously monitoring and reviewing both our income and expenditure streams, keeping abreast of the financial implications of developments both locally and nationally, and ensuring we develop and implement plans to deliver efficiency savings, maximising opportunities for growth and income generation within the financial constraints faced and pursuing prevention measures to curtail, or at least defer, demand.

We undertake to keep Council updated on developments on the future funding regime, and the impact this will have on Blackburn with Darwen, as the year progresses.

8. CAPITAL PROGRAMME 2021-2024

In order to deliver the Capital Strategy, we recommend Finance Council approve the proposed Capital Programme for 2021 through to 2024 of £38.797 million, as detailed at **Appendix C**. 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 and includes investment in:

- our local transport plan
- aids and adaptations through provision of disabled facilities grants
- regeneration of the borough, including our scheme at Blakey Moor to enhance the town centre in Blackburn and support the improvement of leisure facilities and a night time economy and Blackburn town centre redevelopment of the former Thwaites site
- facilitating housing and business growth
- 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.
- the existing schemes within the schools capital programme and creation of additional school places required within the Borough

Allocations are also included for potential investment in existing assets.

However before projects are allocated funding, they are subject to a rigorous business case approval process and detailed Member reports are produced in line with the Council's financial procedures.

The programme will contribute towards the achievement of the Council's priorities by creating more jobs and supporting business growth in the borough through construction, improving transport networks and enhancing the town centre, by improving housing quality and building more homes and also in assisting to deliver efficiencies and savings through the 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 the schools in the borough 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 2021/22 Budget and the Recommended Level of Reserves', the Director of Finance is recommending to Finance Council that the minimum level of Unallocated Reserves for 2021/22 is increased from £4.0 million to £6.0 million, in light of the future risks from the Covid-19 pandemic, the recovery of the economy from this and the impact on the residents of the borough and Council services.

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 2021/22 by 3.99% reflecting;

- 1.99% - general increase in Council Tax to cover increases in the cost of Council services
- 2.00% - to assist it in meeting expenditure on adult social care functions

11. MEDIUM TERM FINANCIAL STRATEGY

The MTFS 2021 to 2024 at **Appendix D** has been reviewed and updated, incorporating;

- the one year funding settlement for 2021/22,
- estimates for income and resources for 2022/23 and 2023/24, acknowledging that these are made in the absence of any information or detail regarding the allocation of local government funding for 2022/23 and beyond (i.e. the redistribution of local government funding as determined by the Fair Funding Review, the mechanics of the future Business Rates Retention Scheme, and the future provision and allocation of any other Government grant funding streams)

- other projections, forecasts and assumptions in relation to expenditure, inflation, interest rates, pensions, as outlined in **Appendix D.**

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 2021/22 and Portfolio Controllable Budgets
- Appendix B - Balancing the 2021/22 Budget Gap
- Appendix C - Capital Programme 2021-2024
- Appendix D - Medium Term Financial Strategy 2021-2024
- Appendix E - Pay Policy Statement 2021/22

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 2021/22, the Capital Programme and the level of Council Tax, together with indicative figures for the following 2 years through to 2023/24.

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 regularly undertakes consultation with residents, businesses, partners and stakeholders. Although this has been particularly difficult over the course of 2020/21 due to the pandemic, a number of consultation exercises have been undertaken related to Covid-19 and the Council's response. These have included support for community resilience activities, feedback on the Help Hub and feedback on our ‘Picture This’ communications campaign.

Other consultation exercises have been conducted with our staff and residents and businesses across the borough through face to face contact, postal surveys and via on line surveys to find out opinions on council services, these have included a Staff Security Awareness Questionnaire, our National Highways and Transport Survey, a Waste and Recycling Customer Panel Survey and the new, Local Plan - Residents Survey which is currently underway.

This feedback helps to shape the Budget, the MTFS and the Capital Programme proposals.

CONTACT MEMBER: **Councillor Vicky McGurk**
Executive Member for Finance and Governance

DATE: **1st March 2021**