

# APPENDIX D

## MEDIUM TERM FINANCIAL STRATEGY 2021 to 2024

### 1.0 Purpose

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

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

Although the strategy would normally extend to cover the 3 year period beyond the end of the budget year, i.e. through to 2024/25, given that;

- as in 2020/21, the Government has only provided a one year funding settlement for 2021/22 and
- uncertainty prevails around the quantum and mechanisms for raising and distributing future local government resources,

as for the MTFS presented to Finance Council in 2020, this MTFS has been limited to 2 rather than 3 additional years, i.e. to 2023/24, until more clarity is provided on central Government's intended changes to the local government funding framework, as noted in **Section 3.0** below.

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

### 2.0 Local Context

The MTFS underpins the Council's Corporate Plan, which was updated and agreed by elected Members in March 2019. The Plan sets out for residents, staff and partners, the Council's top priorities for the period through to 2023, and how the Council will continue to improve services and manage the ongoing and difficult financial challenges ahead, reflecting changes in Council structure and the range of initiatives, new partnerships and interventions we have put in place in recent years, alongside the changing landscape in local government and the wider public sector.

The Council has agreed 8 key priorities which sit under 4 strategic themes, as follows;

*People: A good quality of life for all of our residents*

- Supporting young people and raising aspirations
- Safeguarding and supporting the most vulnerable people
- Reducing health inequalities and improving health outcomes

*Place: Community pride in a vibrant place to live and visit*

- Connected communities
- Safe and clean environment

*Economy: A strong and inclusive economy with continued growth*

- Strong, growing economy to enable social mobility
- Supporting our town centres and businesses

*Council: Delivered by a strong and resilient council*

- Transparent and effective organisation

The Corporate Priorities and Plan are underpinned by an action plan with key corporate and portfolio performance measures so we can progress and monitor achievement against each of these priorities.

Whilst we remain ambitious in our plans to deliver for the residents of the borough, the sustained reductions in government funding that have significantly affected the Council and the services that it provides to the public since 2010, has impinged on what we are able to do and to achieve.

As we have only been given a one-year settlement for 2021/22, and continued uncertainty and risk prevails in the unknown changes to future funding from 2022/23, the challenge persists to continuously review and realign resources, and to deliver efficiencies within the financial constraints imposed by the Government; in doing so, the Council is committed to mitigating, wherever possible, the impact on front line services.

### **3.0 Financial Context**

The fact we have only received a one year settlement has exacerbated the uncertainty and the risk in our medium term financial planning; in the absence of any figures or framework from Government, it has been almost impossible to prepare a credible financial strategy beyond 31<sup>st</sup> March 2022 with any degree of confidence in the underlying assumptions. Uncertainty prevails in respect of:

- the development and implementation of a Business Rates Retention Scheme,
- the development and implementation of a new Fair Funding formula,
- the future of Government grant funding including Public Health Grant, Improved Better Care Fund and Social Care Grant
- plans for integration of the NHS and adult social care
- the impact of Brexit, including the potential change to former EU funding streams linked to the government's 'levelling up' agenda and proposed future shared prosperity funds
- devolution and potential local government reorganisation

and critically,

- in the public health, social, economic and financial impact of the global Covid-19 pandemic in both the short and medium term.

It is within this financial context that we have developed the MTFs.

### **3.1 Fair Funding Review**

The current funding baselines for local authorities in England, as determined by the annual local government finance settlement, are based on an assessment of their relative needs and resources. The methodology behind this assessment was first introduced over ten years ago, and has not been updated since the introduction of the 50% business rates retention system in 2013-14.

Whilst this approach has ensured that those councils who have grown their business rates since this time have benefited from the additional income generated, it also means that the changes in the underlying level of 'need' within individual councils, has not been updated since the 2013-14 settlement. In addition, a desire to fully capture every aspect of a local authority's needs has led to increasingly large numbers of variables being included in the formulas, many of which have had a relatively minimal impact on the overall distribution of funding.

A consultation was issued at the end of 2018, which closed on 21 February 2019, on proposals for a new and simplified needs assessment formula, based on a smaller number of indicators; two years later, we are still awaiting the response.

### **3.2 Business Rates Retention**

The Government's ambition for business rates retention remains two-fold:

1. to give local government greater control over the money it raises, recognising that local authorities are best placed to decide local priorities, and
2. to incentivise local authorities to support local economic growth.

As such, the intention is that the new business rates retention system will be designed to transfer a level of risk and reward to local authorities, allowing growth or decline within a local economy to be reflected in their business rates income. However in the design of the new system, careful consideration must be given to the Business Rates Baseline; i.e. the amount of business rates income that an authority is predicted to raise, over which growth in the locally raised business rates can be retained and the authorities resource needs; the system requires resetting in order to ensure that the distribution of resource remains aligned with need.

As for the Fair Funding Review, although a consultation outlining suggestions and inviting comments for a future approach to Business Rates was undertaken in late 2018, closing on 21<sup>st</sup> February 2019, given the political turmoil of 2019 and Brexit, followed by global crisis due to Covid-19, there has been no communication from the Government on the responses received or on their progress in the development of a new scheme.

### **3.3 Adult Social Care**

As noted in the main body of the report **at Section 5.5**, the publication of the Green Paper on adult social care has been delayed several times; from an original publication date of "summer 2017", delays have persisted with the news that a White Paper would be issued instead, only to be superseded by the Prime Minister's announcement in January 2020 that he would bring forward 'plans' for social care during the year; the impact of Covid-19 frustrated any plans to do so but has

however, brought into sharp focus the inadequacies of the social care system. On 12<sup>th</sup> February 2021 the government issued a paper setting out legislative proposals for a Health and Care Bill; 'Integration and Innovation: working together to improve health and social care for all'. Within the document Government have stated that we are living through the greatest challenge our health and care system has ever faced. Collaboration across health and social care has accelerated at a pace over the course of the crisis showing what can be achieved through collaboration, flexibility, adopting new technology focused on the needs of the patient, and setting aside bureaucracy. The paper aims to build on the collaborations seen through the pandemic to shape a system that is better able to serve people in a fast-changing world. We must await the development of this to understand the impact it will have on social care and local government, and on local government finances.

### **3.4 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; this is required to meet the projected increase in the value of the future pension liabilities for those staff currently working in the organisation and who are in the pension fund.

Following discussions with the Scheme Actuary and the Head the Lancashire County Pension Fund, and following agreement by the Lancashire Local Pension Board, it was agreed that the Council would take a stepped approach to implementing the increase over the 3 years; 2020/21, 2021/22 and 2022/23.

The Council will continue to repay the scheme deficit over the remaining 15 years of the agreed repayment period and the MTFs reflects the Council's decision taken last year to take advantage of the discount offered for early payment, resulting in payment of all the above pension contributions in April 2020 i.e. at the start of the 3 year plan; this has resulted in a net saving, after accounting for interest on borrowing, of approximately £1.5 million across the 3 year period.

### **4.0 MTFs – Key issues and assumptions**

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

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

The Council will continue to monitor income and expenditure streams and to identify emerging cost pressures, particularly as more clarity emerges on the new funding mechanisms, and we will continue to develop, report and implement the necessary financial responses to ensure financial stability and sustainability going forward.

### **5.0 MTFs key issues and assumptions - Resources and Expenditure**

The key figures and assumptions included within the MTFs in relation to Resource and Expenditure levels are as follows;

RESOURCES	2021/22 £'000	2022/23 £'000	2023/24 £'000	ASSUMPTIONS FOR 2022/23 and 2023/24
Revenue Support Grant	13,597	13,733	13,966	<i>In the absence of any further information regarding a future Business Rates Retention scheme it has been assumed that RSG, the system of tariffs and top-ups and 50% retention will continue. It is assumed that all three elements of the Settlement Funding Assessment (SFA) will increase by an inflationary uplift each year.</i>
Top Up	24,275	24,518	24,935	
Locally retained Business Rates	20,545	20,494	20,842	
Business Rates related grants	5,240	5,200	5,200	<i>These grants, which compensate for lost business rates income due to changes in relief since the Business Rates Baseline was set, are assumed to continue at a similar level until details of a new scheme are made available.</i>
Council Tax (including Parish Precepts)	57,207	59,220	60,701	<p><i>The MTFS includes assumptions for;</i></p> <ul style="list-style-type: none"> <li><i>a prudent estimate for housing growth in the tax base of £300k for both 22/23 and 23/24 – this model is under continuous review, in conjunction with the Growth Team and the Revenues Team</i></li> <li><i>a general Council Tax increase of 1.99% in each year</i></li> <li><i>no further increase in the number of Council Tax Support claimants beyond the level included and rolled forward into the tax base from the 21/22 budget – any increase will be offset by the application of the CTS Reserve established for this purpose</i></li> <li><i>the phased implementation of the 3% Adult Social Care Precept, i.e. a precept of 2% in 21/22 with the balance of 1% in 22/23, with no further increase in 23/24</i></li> </ul>
(Deficit)/Surplus on Collection Fund	(7,883)	(817)	(816)	<i>The MTFS assumes the in-year Collection Fund for 21/22, 22/23 and for 23/24 will breakeven for both Council Tax and Business Rates but reflects the recoupment of the estimated deficit incurred in 20/21 over the 3 year period, as allowed by Government as a concession to manage the financial impact of Covid-19.</i>
Council Tax Support and Housing Benefit Admin Grant	700	650	600	<i>It is assumed that the Admin Grants will reduce as more claimants move over to Universal Credit.</i>
New Homes Bonus	825	185	0	<i>Government has announced the end of NHB in its current form and will consult on this in 2021 - given the uncertainties, the MTFS assumes no further NHB</i>
Building Schools for the Future (BSF) Private Finance Initiative (PFI) funding	8,472	8,472	8,472	<i>The funding level was agreed with Government at the outset of the PFI projects</i>
Improved Better Care Fund	8,103	8,103	8,103	<i>In the absence of any further information regarding the future of Adult Social Care funding, the MTFS assumes that the iBCF will continue at the 2021/22 level</i>
Social Care Support Grant	6,551	4,925	4,925	<i>It is assumed that given the pressures on social care, the grant (or some form of support for social care) will continue at its 20/21 level of £4.9mill.</i>
Extended Rights to Free Travel	31	31	31	<i>Assumed continuation of this small grant</i>
Lower Tier Services Grant	317	0	0	<i>One-off grant awarded in 21/22</i>
Local Council Tax Support Grant	2,126	0	0	<i>One-off grant awarded in 21/22 and transferred to Earmarked Reserves to meet future LCTS scheme costs</i>
Covid-19 Grant 2021/22	5,125	0	0	<i>One-off grant awarded in 21/22 and transferred to Earmarked Reserves to meet additional costs of Covid-19 in 21/22.</i>
<b>TOTAL RESOURCES</b>	<b>145,231</b>	<b>144,714</b>	<b>146,959</b>	

EXPENDITURE	2021/22 £'000	2022/23 £'000	2023/24 £'000	ASSUMPTIONS FOR 2022/23 and 2023/24
Portfolio Controllable Budgets	120,890	120,690	120,691	<i>The MTFs reflects the removal of non-recurring income, expenditure and one-off adjustments from the 2021/22 budgets</i>
Contingencies	8,251	11,339	16,208	<p><i>The assumptions made in respect of contingencies held in future years include;</i></p> <ul style="list-style-type: none"> <li>• <i>Provision for a Pay award - 2% assumed in both 2022/23 and 2023/24 (amounting to £2.8m over the 2 years)</i></li> <li>• <i>Provision for Inflationary uplift on specific expenditure lines (equating to £1.8m over the 2 years) – this covers inflation on costs such as social care commissioning and energy in both 2022/23 and 2023/24</i></li> <li>• <i>Provision for increases in the National Living Wage and progression towards parity across Lancashire in social care provider rates (amounting to approx. £4.0m over the 2yrs)</i></li> <li>• <i>Apprentice Levy and support to fund Corporate Apprentices</i></li> <li>• <i>Increases in current service Employer Pension contributions from 16.4% in 2021/22 to 17.4% in both 2022/23 and 2023/2024</i></li> <li>• <i>Payment of Pension Fund Deficit</i></li> </ul>
Interest paid/received and Minimum Revenue Provision (MRP)	12,335	13,102	13,077	<i>The figures for 22/23 and 23/24 include the costs of planned net borrowing and increases in MRP to reflect the capital programme 2021- 2024</i>
Interest paid/received and MRP in respect of PFI projects	5,952	6,218	6,236	<i>The interest costs were agreed at the outset of the PFI projects</i>
Revenue funding for capital projects	3,381	0	0	<i>Several schemes included within the 2021/22 capital programme are planned to be financed from revenue “contributions” e.g. s106 contributions, which have been accounted for in prior periods and carried forward in earmarked reserves</i>
Schools contributions for prudential borrowing, for support services and from DSG Central Schools Support	(1,357)	(1,274)	(1,207)	<i>Dedicated Schools Grant (DSG) Central Services funding for the historic commitment for prudential borrowing has reduced again in 21/22 and a further reduction is estimated for 22/23 and beyond</i>
Parish precepts/grants	190	189	189	<i>Assumed at their 21/22 levels</i>
Transfer to (+) / from (-) Earmarked Reserves	(4,463)	80	80	<i>There is significant movement to/from reserves planned for 2021/22, arising mainly from the significant Government support provided to alleviate the impact of the pandemic e.g. movements <b>to reserves</b> in respect of “general” Covid-19 funding and Council Tax Support grant, offset by transfers <b>from reserves</b> to fund the Business Rate deficit brought forward from 2020/21 (due to enhanced reliefs) and to finance planned capital expenditure as referred to above. Further transfers will undoubtedly be required, and all of these will be reported in the quarterly Corporate Revenue Monitoring returns, but they will stem from income and expenditure flows that cannot be quantified at this time.</i>
Replenishment of Unallocated Reserves	52	0	0	
<b>TOTAL EXPENDITURE</b>	<b>145,231</b>	<b>150,334</b>	<b>155,274</b>	
<b>BUDGET SURPLUS/(SHORTFALL)</b>	<b>0</b>	<b>(5,630)</b>	<b>(8,315)</b>	

## **6.0 MTF5 Financial Forecast - Summary**

The Council has worked hard through the implementation of a range of measures to close the budget gaps that have arisen each year through the Government's programme of austerity; subject to the assumptions made in these papers, yet again, and not without impact on the residents of the borough and the services they receive, it has again, albeit only just, managed to do so for 2021/22.

From an income perspective, the one-year settlement for 2021/22 is a short-term measure to get us through the year and does not facilitate meaningful or effective financial planning to support service delivery.

The future funding level for 2022/23 and beyond is an unknown given the uncertainties around the future mechanisms for Business Rates Retention, tariff and top-ups, the development and implementation of a Fair Funding Review, the future funding of adult social care and the potential integration of social care with health, and the impact of Brexit, including the potential change to former EU funding streams linked to the government's 'levelling up' agenda and proposed future shared prosperity funds

From an expenditure perspective the situation is equally uncertain given the uncertainty in the public health, social, economic and financial impact of the global Covid-19 pandemic in both the short and medium term

It is important to note that the figures upon which the budget gap of £5.630 million in 2022/23 rising to £8.315 million in 2023/24 are based cannot be relied upon within any degree of certainty given the significant risks around the assumptions made, particularly given the lack of information provided by central Government in relation to future funding, and the mechanisms for its distribution, at this time.

The MTF5 presented therefore reflects the best estimate of future income and expenditure streams that we have at present. It is based on an array of current information and data sources and on a series of assumptions which are all referred to above and in the main body of the report.