APPENDIX D

MEDIUM TERM FINANCIAL STRATEGY 2019 to 2022

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. to 2022/23, as for the MTFS presented to Finance Council in 2018, this MTFS has been limited to 2 rather than 3 additional years, i.e. to 2021/22, until more clarity is provided on central government's intended changes to the local government funding framework and distribution mechanisms 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 at Policy Council in December 2018. The Plan sets out for residents, staff and partners, the Council's top priorities for the period through to 2020 and how the Council will continue to improve services and manage the ongoing and difficult financial challenges ahead. The current Corporate Plan however was developed in 2015, since when much has changed. As it is vital that we understand our residents, communities, businesses and employees, and that their needs are reflected in our priorities and objectives, it is timely therefore that we refresh the Plan to reflect the 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.

Over the past few months we have undertaken activity that will help the Council make an informed decision on future priorities and objectives and these are being analysed. These include:

State of the Borough - we commissioned an independent assessment of the 'State of the Borough' covering three main topics – economy; people; and place. The commission examined our strengths, weakness, opportunities and threats.

Joint Strategic Needs Assessment (JSNA) 2018 - the Council's JSNA Summary Review for 2018 provides an analysis of the key economic, social and environmental determinants of the life chances of our residents. It also provides an in depth analysis of our population and its health and considers current and future health and social care needs.

Resident survey - to help understand residents views the Council undertook a resident's survey which has been mailed directly to randomly selected households seeking views on council services, their local areas and our current priorities. An open platform was also made available so that all residents, partners, businesses and communities could share their views.

Corporate Peer Challenge – as the Council has undergone major change over recent years, it was felt timely to invite the Local Government Association's (LGA) Corporate Peer Challenge to the Council and explore how effectively we are delivering services to residents and business, our financial management and our organisational capacity. We also invited the Peer Team to provide observation and feedback on our approach to community engagement and our digital direction.

LSP summit - the LSP is a multi-agency group that represents the diverse public, private, voluntary, community and faith sectors in Blackburn with Darwen. Our first annual summit was held in October 2018 and partners from across the public sector, businesses, voluntary and faith sectors, along with education providers attended the event providing input identifying the top two or three key priorities for the Borough

Social integration strategy - through a series of consultation events and workshops with a wide range of local groups and organisations from across the borough, four priorities for the work have been identified;

1. Increasing economic prosperity for all of the borough's communities
2. Strengthening relationships between communities;
3. Building connections between young people from diverse communities; and
4. Connecting people from disadvantaged areas to zones of employment and shared spaces.

Over the coming weeks, officers will be finalising five or six key corporate priorities for the Council to focus on over the period to 2023, which will reflect the evidence base and emerging local and national policy issues, whilst building on our existing six priorities.

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

Emerging themes include inclusive growth and social mobility; supporting young people and raising aspirations; safeguarding and supporting the most vulnerable people; connected communities and integration; reducing health inequalities and improving health outcomes; strengthening partnership working; financial resilience.

The Corporate Priorities and Plan will be underpinned by an action plan with key corporate and portfolio performance measures so that we can progress and monitor achievement of our priorities; it is expected that the new Corporate Plan and

Priorities will be reported to Council Forum on 28th March 2019 for consideration and approval.

Despite the sustained reductions in government funding that have significantly affected the Council and the services that it provides to the public since 2010, as a unitary authority we have strived to balance the many competing priorities across the services we provide. Given the uncertainty and risks associated with the future changes in funding from 2020/21, the challenge persists to continuously review and realign resources and to deliver efficiencies within the financial constraints imposed by the Government and in doing so, the Council is committed to mitigating, wherever possible, the impact on front line services.

3.0 Financial Context

In accepting the 4 year settlement effective from 2016/17, the Council has been provided with some stability to assist in financial planning through to 2019/20, however for 2020/21 and beyond, the uncertainty with regards to Government's plans for;

- the development and implementation of a new Fair Funding formula,
- the development and implementation of a new Business Rates Retention Scheme,
- the future of government grant funding including Public Health Grant and Improved Better Care Fund,
- the Green Paper on Adult Social Care and the future plans for integration of health and adult social care and associated funding
- the impact of Brexit,

has made it impossible to model a longer term strategy without any degree of confidence in the underlying assumptions.

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 councils' underlying levels of 'need' have not been updated since the 2013-14 settlement. In addition, a desire to fully capture every aspect of local authorities' needs has led to increasingly large numbers of variables being included in the formulas, many of which had a relatively minimal impact on the overall distribution of funding.

As such it has been agreed that a simplified needs assessment formula, based on a smaller number of indicators, could achieve outcomes that are a good approximation of those of a more complex system

Future baseline funding levels will equal;

The Relative Needs share of the LA

LESS

A Relative Resources adjustment.

Where Relative Needs comprises;
Foundation Formula – which it is proposed is based on the population of each authority
Plus several service specific formula

- Adult Social Care
- Children and Young People's Services
- Public Health
- Highways Maintenance
- Fire & Rescue
- Legacy Capital Finance
- Flood Defence and Coastal Protection

with the weighting of each of the above within the formula to be yet determined and,

Relative Resources comprises;
A measure of council tax base, including a treatment of discounts, exemptions, premiums and local council tax support, ***multiplied by***
A measure of council tax level, ***multiplied by***
A measure of the council tax collection rate, ***shared according to***
An approach to council tax tier splits in multi-tier areas.

A consultation on the proposals has run for 10 weeks and closed on 21 February 2019; we now await 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 business rates retention system is designed to transfer a level of risk and reward to local authorities, allowing growth or decline within a local economy to be reflected in an authority's business rates income. The consultation suggests a future approach to resets that would allow more authorities to keep more of their business rates growth, and reaffirms the Government's commitment to a safety net to protect authorities from sudden reductions in income, although it does not address how local authorities will transition from the current system to a reformed system or how the reforms would be operationalised; the Government expects to consult further on these points later in 2019.

Resetting Business Rates Baselines

The resetting of Business Rates Baselines (BRB) will dictate the strength of the growth incentive for individual authorities by determining the amount of business rates growth they retain, and for how long.

At an individual authority level, under the current 50% Business Rates Retention scheme, the amount of business rates income retained is determined by the relationship between Baseline Funding Level (BFL) and Business Rates Baseline, as detailed in the main body of the report at **section 5.3**. Baseline Funding Level is the level of business rates income allocated to meet an authority's need, as determined by the Local Government Finance Settlement

The Business Rates Baseline is the amount of business rates income an authority is predicted to raise. Growth in the authority's locally raised business rates can be retained above its Baseline Funding Level (currently at 50%, which is the local share under 50% business rates retention).

The system requires resetting in order to ensure that the distribution of resource remains aligned with need. If the system is reset too frequently, then the growth incentive may be weakened and local authorities may be discouraged from building achieved growth into their base budgets or using growth for long-term investment. However, resetting too infrequently could mean that relative need grows faster than local tax resource.

The Government's view is that the most desirable reset option/type of reset, will provide a strong incentive for growth, allowing authorities to see the benefit of their locally raised income and also incentivising local authorities to take a strategic and long-term view and align their policies and practices around maximising growth in business rates.

As for the Fair Funding Review, the consultation has run for 10 weeks and closed on 21 February 2019; again we now await the response.

3.3 Green Paper on 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", the report still remains outstanding.

The Government has however acknowledged that the increase in demand in this area, both current and projected, is unsustainable and that greater integration between health and social care is essential to addressing this. Despite the responsibility for social care moving from the Ministry of Housing, Communities and Local Government into the Department for Health early in 2018 and the recent release of the NHS 10 year Plan, there is no further information as to what the changes may be to deliver such an approach and so we must await the Green Paper, on a date yet to be confirmed.

4.0 MTFS – Key issues and assumptions

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

From a base of £183.1 million in 2010/11, despite the benefits of the Lancashire 75% BRR pilot in 2019/20, the borough has seen a significant reduction in its level of recurring funding to £118.7 million in 2019/20; a reduction of 35%.

This 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, albeit that the figures do not include the one-off, non-recurring/time-limited funding streams that the government has provided to address pressures in the short term.

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 i.e.

- the Transformation Programme during 2010 to 2014
- the 3 year savings programme of £26.0m approved by Council Forum in September 2014,
- the £3.6m in-year budget savings programme of 2016/17,
- the £15.0m savings programme developed during 2016/17 for implementation by the end of 2017/18
- a savings programme of £8.0m developed during 2018/19 to close the budget gap of £4.9m for 2019/20, as identified at the Finance Council in 2018, and to address both the cost pressures and further reductions in income that have emerged over the course of the year

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	2019/20 £M	2020/21 £M	2020/21 £M	ASSUMPTIONS FOR 2020/21 and 2021/22
Revenue Support Grant	0.0	0.0	0.00	It has been assumed the mechanics of the Lancashire 75% BRR pilot model is a proxy for the government's final 75% BRR scheme
Top Up	27.2	32.1	31.5	Top-up plus Locally retained Business Rates equal the Business Rates Baseline. It is assumed that all of the Business Rates related grants will form part of the new Business Rates Baseline following reset. As locally retained Business Rates increase by an inflationary uplift each year, the MTFS assumes that in 20/21 and 20/22, as this figure increases, the Top-Up (the balancing figure) has been reduced so that the overall Business Rates Baseline remains the same.
Locally retained Business Rates	30.8	30.6	31.2	
Business Rates related grants	6.5	0.0	0.0	
Council Tax	52.8	54.1	55.5	The MTFS assumes; • the MTFS has included a prudent estimate for growth in the tax base of £300k for both 20/21 or 21/22 – this model is under continuous review and in conjunction with the Growth and the Revenues Team • a council tax increase of 1.99% in each year has been assumed
(Deficit)/Surplus on Collection Fund	0.5	0.0	0.0	The MTFS assumes the Collection Fund for both Council Tax and Business Rates will breakeven
Council Tax Support and Housing Benefit Admin Grant	0.7	0.6	0.5	It is assumed that Housing Benefit Admin Grant will reduce as more claimants move over to Universal Credit.
New Homes Bonus	0.9	0.7	0.7	Given the uncertainties around this funding, the MTFS assumes we have no new NHB in future years
Better Schools Fund PFI funding	8.5	8.5	8.5	The funding level was agreed with Government at the outset of the PFI projects
Sc 31 Grant for Improved Better Care Fund	6.3	6.3	6.3	In the absence of the Green Paper on Social Care, the MTFS assumes that both the original iBCF and the additional iBCF will continue into 2020/21 and 2021/22 at their 2019/20 level; given the magnitude of the financial pressures on adult social care it is difficult to see how these can be addressed without a similar level of government funding being provided as a minimum
Additional Improved Better Care Fund (announced Spring 2017)	1.1	1.1	1.1	
Adult Social Care Grant	0.0	0.0	0.0	
Adult Social Care Winter Pressures Funding	0.8	0.8	0.8	
Social Care Support Grant	1.3	1.3	1.3	
TOTAL RESOURCES	**137.4**	**136.1**	**137.4**	

EXPENDITURE	2019/20 £M	2020/21 £M	2020/21 £M	ASSUMPTIONS FOR 2020/21 and 2021/22
Portfolio Controllable Budgets	116.1	117.0	117.0	The MTFS reflects the removal of non-recurring income, expenditure and one-off savings from the 2019/20 budgets
Contingencies	4.2	6.1	8.3	The assumptions made in respect of contingencies held in future years include; • Pay award 2% • Inflationary uplift on specific expenditure lines e.g. commissioning and energy, of approximately 2% • Apprentice Levy and support for Corporate Apprentices • Payment of Pension Fund Deficit • Carbon Reduction Commitment
Interest paid/received and MRP	13.2	13.8	13.9	The figures for 20/21 and 21/22 reflect the recent long term borrowing taken to hedge against interest rate increases
Interest paid/received and MRP in respect of PFI projects	6.3	6.3	6.2	The interest costs were agreed at the outset of the PFI projects
Revenue funded capital expenditure	0.3	0.0	0.0	
Schools contributions for prudential borrowing, for support services and from DSG Central Schools Support	(1.6)	(1.6)	(1.6)	Assumed at their 19/20 levels
Parish precepts/grants	0.2	0.2	0.2	Assumed at their 19/20 levels
Use of Earmarked Reserves	(2.1)	0.0	0.0	
Replenishment of Unallocated Reserves	0.8	0.0	0.0	
TOTAL EXPENDITURE	**137.4**	**141.8**	**144.0**	
BUDGET GAP	**0.0**	**(5.7)**	**(6.6)**	

The above figures assume that the Settlement Assessment will remain at the same level as 2019/20 in both 2020/21 and 2021/22, however we have also undertaken modelling to assess the impact of alternative scenarios as follows;

	2019/20	2020/21	2021/22
Scenario 1 - no reduction in Settlement Funding Assessment (SFA) (as above)			
Total Resources	137,345	135,917	137,185
Total Net Council Expenditure	136,592	141,636	143,776
Use of balances to support budget (-ve) or contribution to balances (+ve)	753	(5,719)	(6,591)
Scenario 2 - 3% reduction in Settlement Funding Assessment (SFA)			
Total Resources	137,345	134,989	134,405
Total Net Council Expenditure	136,592	141,636	143,776
Use of balances to support budget (-ve) or contribution to balances (+ve)	753	(6,647)	(9,371)
Scenario 3 - 5% reduction in Settlement Funding Assessment (SFA)			
Total Resources	137,345	133,716	131,961
Total Net Council Expenditure	136,592	141,636	143,776
Use of balances to support budget (-ve) or contribution to balances (+ve)	753	(7,920)	(11,815)

The scenario modelling above has focussed on government funding to the Council however risks also prevail in respect of expenditure; whilst the MTFS includes inflationary cost pressures, both 20/21 and 21/22 assume no further increase in demand. If this proves not to be the case then the potential budget gaps in the above scenarios would increase further.

In summary, should the Government continue to impose funding reductions on the Council through;

- the implementation of the Fair Funding Review and
- through the new Business Rates Retention scheme AND/OR

- should it reduce the level of total funding available to Local Government through a programme of continued austerity,

the Budget Gap could increase significantly; in isolation a 5% reduction in the SFA alone would lead to a budget gap of almost £12.0mill in 2021/22 and this does not reflect changes in the assumptions that have been made regarding the continued support for social care and other resource and expenditure assumptions that are not without significant risk.

6.0 MTFS Financial Forecast - Summary

Faced back in 2016 with a forecast deficit of almost £48 million by 2019/20, the Council has worked hard through implementation of a range of measures to close the budget gap; subject to the assumptions made in these papers, it has now managed to deliver this.

Significant progress has been made to date through delivery of the agreed savings programme and through increases in income.

From an income perspective, the 4 year settlement provided some stability for financial planning through to 2019/20 but as outlined above, 2020/21 is an unknown given the uncertainties around the future mechanisms for Business Rates Retention, tariff and top-ups, the implementation of the Fair Funding Review, the future funding issues of adult social care and the potential integration of social care with health and also the future changes in the schools funding formula.

From an expenditure perspective the situation is equally uncertain; inflation and interest rates are forecast to rise, which in turn will create demand for increases in pay. The uncertainty around the impact of Brexit looms large and the demand for services, specifically adult social care and children's services persist.

It is important to note that the figures upon which the budget gap of £5.719m in 2020/21 and £6.591m in 2021/22 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 MTFS 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.