REPORT OF:	**EXECUTIVE MEMBER FOR FINANCE AND GOVERNANCE, ON BEHALF OF THE LABOUR GROUP**
TO:	**FINANCE COUNCIL**
DATE:	**24th February 2020**

PORTFOLIOS AFFECTED: ALL

WARDS AFFECTED: ALL

SUBJECT: Revenue Budget 2020/21, Medium Term Financial Strategy and Capital Programme 2020-2023

1. PURPOSE

To recommend to Finance Council the Budget Strategy and proposals for the Revenue Budget 2020/21, together with the Medium Term Financial Strategy (MTFS) and Capital Programme for 2020-2023.

2. RECOMMENDATIONS

To approve the proposals for the Revenue Budget for the financial year 2020/21 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 £0.58 for Band D Council Tax payers and of £0.39 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 £0.58 for Band D Council Tax payers and of £0.39 for Band A Council Tax payers)

2.3 To note the individual portfolio controllable budgets for 2020/21 as set out in **Appendix A**

2.4 To note the work that has been undertaken to implement the £4.7m savings programme (as outlined at **Section 6**) to ensure a balanced budget in 2020/21 and to offset any other emerging cost pressures in-year and/or replenish reserves ahead of any more significant savings that may be required from 2021/22, once the outcome of the Fair Funding Review and Business Rates Retention Reviews are known.

2.5 To note the significant risks and uncertainty that underpin the assumptions contained within the MTFS for the financial year 2021/22, due to the lack of information that is yet to be provided by central Government including;

- the mechanisms for Business Rates Retention,
- the outcome of the Fair Funding Review and the resulting redistribution of resource,
- the Government's plan to address the future of social care which the Prime Minister has said he will issue later this year and which is intrinsically linked to the future plans for the integration of health and adult social care and the potential changes in associated funding streams
- the impact of Brexit

2.6 To approve the utilisation of the Earmarked Reserves, as detailed in the *Robustness of the 2020/21 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 2020/21, 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 and the Directors of Finance and Customer Services and Adults and Prevention.

2.8 To approve the proposals for the Capital Programme for the period 2020-2023 as outlined in **Appendix C** and **Section 8** of this report

2.9 To approve the draft Medium Term Financial Strategy 2020-2023, 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 & Customer Services

2.11 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 as follows;
- for those properties that have been vacant for five years or more to 200% with effect from 1st April 2020
- for those which have been vacant for ten years or more to 300% with effect from 1st April 2021

2.12 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 2020/21 unless replaced or varied by the Council, as set out in **Appendix E**.

2.13 To approve the introduction of a blue recycling bin for paper and card, thereby preventing approximately 1,800 tonnes of recyclable waste going to landfill each year. As outlined in **Section 6.1.3** of this report, following the recent tender exercise for the processing of recyclates, a capital investment of up to £1.5million will enable the council to deliver annual revenue savings of £0.8 million.

2.14 To approve the upfront payment of the Council's Pension Deficit Contribution and the estimated Future Service Contributions for current employees who are members of the pension scheme for the period 1st April 2020 to 31st March 2023, as outlined in **Section 6.2.3 and 6.2.6** of this report.

3. BACKGROUND

In 2010 the Conservative and Liberal Democratic coalition Government began the programme of austerity which has prevailed until the present day. The programme signalled the start of an unprecedented level of financial challenges across the public sector which has led to significant cuts across many areas.

Over the period 2010/11 to 2019/20;

- this Council has had the largest reduction in Core Spending Power of all Unitary authorities at 30.5% (£51.7million), which is the 32nd largest reduction out of all 350 local authorities in the country
- the Centre for Cities report published in January 2019 outlined that between 2009/10 and 2017/18, Blackburn with Darwen had the 5th largest real-term fall in total local government spending across the country
- latest IMD statistics tell us that the borough is ranked 9th in a list of the most deprived local authorities in the country.

These extreme financial challenges, coupled with 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 2019, when compared to all other Unitary Authorities, Blackburn with Darwen had the 5th lowest level of reserves as a percentage net of revenue expenditure.

In balancing the Council's finances to meet the financial challenges since 2010, 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 2019/20 and a Medium Term Financial Strategy (MTFS) for the period through to 2021/22 back in February 2019, 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 2020/21
- 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 2019 identified a budget gap of £5.7 million for 2020/21 based on the financial data and demand information available at that time. However as 2019/20 has progressed, the pressures identified have increased, in line with the national picture for upper tier authorities, including further rises in demand in Children's Services, particularly in relation to placement demand and costs due to the number of looked after children in the borough, along with further pressures on highways and the escalating costs in relation to waste disposal.

To address these pressures during 2019/20 we have used both earmarked and unallocated reserves but, as some of these additional costs are of a recurring nature and will require further support in 2020/21 and beyond, they will need to be addressed through further savings, re-prioritisation of resources and from additional income. Details of the movement in the Budget Gap for 2020/21 are set out in **Appendix B.**

The assumptions for 2020/21 contained within the MTFS back in February 2019 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.

However, 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.

As reported to Finance Council for the past 2 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 2023/24, however given that the Government has still not shared proposals for their intended approach, nor the mechanisms for calculating any local government finance settlement, the future funding arrangements beyond 2020/21 are impossible to plan for with any certainty. Therefore in preparing this MTFS, we have focused on the year 2020/21 until more clarity is provided over the next 12 months. Whilst we have included figures for 2021/22 and 2022/23 within this report, these are based on scenario modelling for the impact of possible changes to 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 during the course of 2020/21.

This paper sets out the Labour Group's proposed Revenue Budget, Capital Programme and associated Council Tax level for 2020/21 together with the MTFS for the period 2020-2023 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 2020/21.

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. Due to the demands of Brexit, a change in Prime Minister in July 2019 and a 'snap' general election in December 2019, there have been significant delays in the release of the settlement for 2020/21; the Provisional Local Government Finance settlement was issued on 20th December 2019 however the Final Settlement, which was due to be laid before Parliament on 12th February 2020, has now been deferred and as a consequence of the February Parliamentary Recess, the vote will not be held now until the week commencing 24th February.

5.2 Core Spending Power

The Core Spending Power figure is provided to us by the Government as part of the Finance Settlement; it is a Government calculation and is an estimate of the core revenue funding available for local authority services, including Council Tax and locally retained Business Rates, with estimates of Council Tax income being based on the Government's assumption that councils will apply the maximum increases available to them for the year ahead;

Core Spending Power	2019/20	2020/21	Change	Who Pays
	£'m	£'m	£'m Incr/(Decr)	
Settlement Funding Assessment (SFA) (predominantly business rates funding)	57.2	58.1	0.9	Govt
Council Tax Requirement	52.6	55.4	2.8	CT Payers
Improved Better Care Fund	8.1	8.1	0.0	Govt
Social Care Support Grant	1.3	4.9	3.6	Govt
New Homes Bonus	0.9	1.0	0.1	Govt
Compensation for under-indexing the business rates multiplier	1.4	1.8	0.4	Govt
Total	**121.5**	**129.3**	**7.8**	

This calculation does not make any allowances for inflationary, demand or cost pressures which are expected to be self-funded by the Council. The figure shows that whilst Government support has increased by £5.0m, largely through some additional funding to provide some support for both adults and children's social care pressures and through increased business rates income, £2.8m must still be raised from Council Tax Payers to meet the Government's published figure for Blackburn with Darwen's spending power.

This assumes the Council will apply both a general council tax increase and the 2% increase on the precept in respect of adult social care specifically.

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

Due to the Council's membership of the successful Lancashire 75% Business Rates Retention (BRR) Pool Pilot in 2019/20 the allocation of RSG was forfeited, resulting in SFA being made up solely of the BFL element. As a result the notional retained business rates figure was increased significantly, reflecting a 75% local share rather than 50%, with top-up grant remaining as the balancing figure.

In order to provide a direct comparison, the table below includes the 2019/20 SFA figures as they would have been under the 50% BRR model.

	2018/19 £m	**2019/20 £m**	**2019/20 £m**	***2020/21 £m***
	50% BRR	**75% BRR Actual**	**50% BRR Comparative**	***50% BRR***
Settlement Funding assessment (SFA)	**60.7**	**57.2**	**57.2**	***58.1***
Funded by:				
Revenue Support Grant	17.8	-	13.3	*13.5*
Business Rate Baseline Funding Level (BFL)	42.9	57.2	43.9	*44.6*
Comprising				
- notional level of Business Rates retained by BwD (the Business Rates Baseline)	19.4	30.0	20.0	*20.3*
- Top-up funding provided by Government	23.5	27.2	23.9	*24.3*
(Reduction) in SFA		**(3.5)**	**(3.5)**	***0.9***

The advantage of the 75% Pilot in 2019/20 was that all the parties to the scheme were able to retain any growth in business rates income (including s31 grants compensating for loss of income due to changes in reliefs) at the higher rate of 75%, with Government's share reducing to 25%

Unfortunately, the Government announced the cessation of all the 2019/20 Business Rates pilots for the 2020/21 financial year and as such, the figures have reverted back to the old basis.

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 £13.5m in 2020/21.

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 9 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%.

2019/20 pilot scheme

As noted above, the Council was a member of the Lancashire 75% Business Rates Retention Pool Pilot for 2019/20.

Although the actual amount of business rates collected in 2019/20 will only be finalised on submission of each pilot member’s 2019/20 National Non-Domestic Rates Form 3 Return (NNDR3) due in on 30th April 2020, based on recent forecasts submitted by all participating authorities, it was identified that approximately £7.1m of predicted additional growth will be retained within the county under the pilot, of which Blackburn with Darwen’s share will be £1.26m.

Unfortunately on 17th September 2019 MHCLG confirmed that although the national 75% Business Rates Retention scheme would not be implemented for 2020/21 as had been intended, it would not be continuing with the 2019/20 pilots. Despite all members raising their disappointment and dismay at this position with MHCLG, through their Leaders, their MPs and the Local Government Association, the decision was not reversed and as such, we will now revert to the 50% BRR scheme on 1st April 2020.

Future scheme

At the Spending Review in September the Government confirmed that it would now 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. Given the delays to date, we are unsure how their model will operate although we expect further information to be provided as the year progresses. As such, we have assumed within the MTFS for 2021/22 and 2022/23 that the mechanics of the Lancashire pilot of 2019/20 will 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 second lowest Council Tax in Lancashire.

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 in 2016/17 (i.e. the maximum general increase permitted under the Government's referendum cap), alongside reductions in expenditure and increases in other available income streams.

Within the Financial Settlement for 2018/19, the Government announced an increase in the referendum cap for 2018/19 and 2019/20 from 2.0% to 3.0% and as such, they assumed within the figures they provided in the SFA, that the Council would apply the maximum Council Tax increase permissible without the need for a referendum, i.e. 2.99%. The referendum cap has been reduced to 2.0% for 2020/21 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 2021/22 and 2022/23.

The Government has made it clear that they 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 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%
As at 30th November 2018								
34,837	9,281	8,358	4,425	2,046	784	579	70	60,380
57.7%	15.4%	13.8%	7.3%	3.4%	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 specifically used to assist in meeting expenditure on Adult Social Care functions. In 2017/18, the Government announced the option for Councils to continue to increase Council Tax through application of the precept, subject to a maximum increase of 3% in any one year and a total cap of 6% over the period 2017/18 to 2019/20; again the assumption was made within the Core Spending Power calculation 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 proceeded with the increase in 2016/17 and then applied a 3% increase in each of the following 2 years through to 2018/19.

In the Provisional Financial Settlement for 2020/21, and assumed again within their calculations of Core Spending Power, the Government has again introduced the flexibility to apply a further precept of up to 2% in 2020/21 for every authority providing social care. Given the increasing cost pressures and demand in this area, the Budget for 2020/21 assumes this increase will be applied.

5.4.3 Local Council Tax Support Scheme

Universal Credit (Full Service) commenced in the borough in February 2018. As such, most claimants making new claims for Housing Benefit, Job Seekers Allowance, Tax Credits, Income Support, Child Tax Credits or the Employment and Support Allowance (ESA), or those with certain changes in circumstances, now move over to receive Universal Credit and as such their Housing Benefit ceases as it is subsumed within the Universal Credit payment. Due to further government delays, the transition of people from the various legacy benefits has been delayed yet again, and is now not expected to complete until September 2024.

We continue to work in partnership with the Department of Work and Pensions (DWP) and Shelter, having contract with the latter to provide additional support in this area, to support residents in their transition to Universal Credit and to ensure they claim Council Tax Support, if applicable. 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.

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.

In July 2019 it was reported in the Financial Times that the new Prime Minister had shelved the Green Paper and instead would issue a White Paper, expected in the autumn.

In September 2019 the Prime Minister said he would bring forward proposals ‘in due course’.

In January 2020 he has said he would bring forward a plan for social care within the year for implementation within this parliament i.e. over the next 5 years.

Throughout this period the Government has 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 closer integration signalled in January 2018, when responsibility for social care moved from the Ministry of Housing, Communities and Local Government into the Department for Health, there has been little change in the approach taken and so we must await the release of the ‘plan’, on a date to be confirmed.

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 for 2017/18, funded in part through reductions in the New Homes Bonus allocation, to provide specific funding for adult social care on an incremental basis up to 2019/20. Shortly afterwards, in March 2017 additional iBCF funding was announced to provide assistance in alleviating some of the more immediate financial pressures on this service.

For 2020/21, as part of this year’s one year settlement, these funding streams have been consolidated, along with the Social Care Winter Pressures funding, as follows;

	2019/20 £m	2020/21 £m
Improved Better Care Fund	6.26	8.1
Additional Improved Better Care Fund	1.08	-
Social Care – Winter Pressures funding	0.76	-
TOTAL iBCF	8.1	8.1

The fund is allocated directly to Local Authorities through a separate Section 31 grant with the NHS and it is a requirement of the funding that iBCF is pooled and monitored together with the existing Better Care Fund.

Beyond 2020/21 there is no certainty for the future of the iBCF funding and so, for the purposes of the MTFS, it has been assumed that this will continue into 2021/22 and 2022/23 at the 2020/21 level; 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 a very minimum.

The Government have announced a 5.4% increase in the NHS Mandated BCF allocations. For Blackburn with Darwen this increases the NHS Mandated BCF from £11.992m in 2019/20 to £12.635m in 2020/21. This is managed through the BCF pool as part of the BCF planning process.

5.5.2 Adults and Children’s Social Care

In light of the persistent and significant 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 and 2019-20 to support both adults and children's social care. This was distributed according to the existing Adult Social Care Relative Needs Formula.

In the one year funding settlement for 2020/21, an additional £1.0 billion has been made available nationally to support social care. Again distributed using the same formula, this has resulted in additional funding of £3.6 million for Blackburn with Darwen as follows;

	2019/20 £m	2020/21 £m
Social Care Support Grant	1.30	1.30
Additional funding for Social Care	-	3.60
TOTAL Funding for Social Care	1.3	4.90

It has been assumed that this level of funding will continue into 2021/22 and 2022/23 in some form or other, given the pressures on social care.

5.6 Dedicated Schools Grant (DSG)

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

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

The notional blocks are not individually ring-fenced but are ring-fenced in total and local authorities are responsible, in conjunction with their local Schools Forum, for determining the split of the grant between their own central expenditure and the Individual Schools Budget.

The National Funding Formula (NFF) for Schools, determined by the Government, was expected to be fully implemented for 2020/21, however this has not been the case and therefore as in 2019/20, local authorities will continue to be responsible for allocating the Individual School Budget to individual schools in accordance with either a 'hard' National Funding Formula or 'soft' local schools' funding formula.

For 2020/21 there have been a number of changes to the Schools Block NFF formula factors, and per pupil allocations. These have been included within our Schools Block allocations to schools using the 'soft' local funding formula agreed by Schools Forum.

The Government has also announced a number of changes to DSG as follows:

- The High Needs Block NFF will provide an increase of at least 8% per head for every local authority, with maximum gains of 17%.

  The Government has increased High Needs funding 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 13.17%, which equates to £2.622m in cash terms. This funding will support the ongoing pressures within our High Needs Block.
- The Central School Services NFF will continue to fund all local authorities for their ongoing responsibilities, however there will be a 20% reduction in the element of funding that some authorities receive for 'historic commitments' made prior to

2013/14. This is in line with the Government's policy to withdraw 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 the 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 2020/21. In 2019/20 as in previous years, this was a ring-fenced grant to the Authority and as such, reductions in funding were offset by a corresponding decrease in expenditure. It has been assumed that this mechanism will remain in place for 2020/21 and that the amount of grant to be given to Blackburn with Darwen will be £14.4 million, as it was in 2019/20.

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.

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, down to 5 years with effect from 2017/18 and down to 4 years from 2018/19.

The figures released within the Finance Settlement have been incorporated into the 2020/21 budget and prudent estimates for 2021/22 and 2022/23 have been included in the MTFS as follows;

	2020/21 £m	2021/22 £m	2022/23 £m
New Homes Bonus	0.999	0.658	0.185

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 Government has stated that it will retain the option of making adjustments to the baseline in future years in the event of a significant increase in housing growth.

Given the uncertainties around this funding, the MTFS assumes we have no new NHB in future years beyond that already awarded for 2020/21 and previous years.

5.8.2 Growth Agenda

The Council remains committed to delivering a more prosperous Borough and as such, we have invested in a Growth Team which brings focus to all development activities within the area, and who works 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.

As at 31st March 2019, the Council had delivered 2,696 new homes in the Borough under the Local Plan since 2011 either through new build, conversions or bringing empty homes back into use. To widen the choice of housing in the borough, 740 of these new homes have been affordable. The programme has continued to make excellent progress over the course of 2019/20 which is reflected in the increases in Council Tax and New Homes Bonus included in the budget for 2020/21.

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 new board is to be established to help shape plans for how up to £25m of funding could 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 and Customer Services, 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 and they will continue to do so.

6. KEY ISSUES - EXPENDITURE

Given the scale of the financial challenge over the past few years, throughout the course of 2019/20 Executive Members and Officers have continued to review their services and worked to deliver the agreed budget reductions.

The development of a continuous approach to reviewing budgets, identifying cost pressures and the development and implementation of agreed strategies and options to manage costs within the resources available, has significantly assisted in managing the budget, however despite the efforts of Executive Members and Officers, the scale of the funding reductions, combined with increases in demand for services and unfunded cost pressures, has meant that further expenditure reductions have been required during 2019/20 and on into 2020/21, in addition to those already implemented since 2010.

The MTFS for 2020/21, as presented to Finance Council in February 2019, identified a budget gap of £5.7 million. Following work completed over the summer months, the figures were refined to reflect updated information and projections; savings options were then developed and agreed in September and October to close the gap, and also to reflect new and emerging pressures as outlined in **Section 6.1** and **Section 6.2** below.

To assist in closing the budget gap, a savings programme of £4.7 million has been developed and implemented over the course of 2019/20. The programme has included contributions from across all portfolios, with subsequent budget reductions reflected in the respective portfolio cash limits for 2020/21. The savings can be broadly broken down as per the table below and of these, the majority have already been delivered, or will be delivered by 31st March 2020.

	Savings Programme £m
Efficiencies/Demand Management	1.4
Increased Income	1.0
Workforce Savings	1.4
Alternative Service Delivery Models	0.9
TOTAL	**4.7**

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 delivering the budget for 2020/21 and in trying to develop the MTFS, despite the significant uncertainties regarding future funding mechanisms and the impact of this on the Council's level of resource, 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.

In the period since December 2019 work has been ongoing to re-align budgets, by reviewing each income and expenditure line within each cost centre of each portfolio, identifying cost pressures and shortfalls against income targets, and conversely identifying any areas where budget could be reallocated, i.e. due to reductions in expenditure or where actual income is exceeding target, to offset in part the overspends faced.

This exercise is being led by the Director of Finance and Customer Services who will provide financial challenge and recommendations to each portfolio based on her findings. This will take some time to complete and will extend into 2020/21; any further baselining of budgets required will be actioned as soon as is possible.

Whilst the Council is recommended to approve a balanced budget for 2020/21, this is predicated on the delivery of a further savings programme that has been developed, and in the most part implemented, over the course of 2019/20. It is also based on the containment of all emerging cost pressures within each portfolio.

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

6.1.1 Adult Services and Prevention

During 2019/20 the portfolio has continued to face challenges arising from increasing demand, the complexity of cases and other increases in cost from within the social care sector, in particular those arising from social care provider fee uplifts for the introduction of further increases in the National Living Wage (NLW); the recently announced National Living Wage increase to £8.72 in 2020/21, is an increase of 6.2% on the previous financial year.

Some provision has been made within the MTFS for the costs of the NLW, however the portfolio is required to contain ongoing financial pressures from increased demand and demographic change and has a number of challenging saving targets for delivery in 2020/21. The portfolio continues to implement a variety of demand management strategies and alternative ways of delivering services which have had a positive impact on the financial position during 2019/20.

Every effort will be made to contain demand and to progress our partnership working to maximise efficiencies.

6.1.2 Children, Young People and Education

The increased cost pressures faced by the Children, Young People and Education portfolio during 2018/19 have continued into 2019/20 and escalated during the course of the year. During 2019/20 the number of children entering the care system and the numbers of children looked after has increased significantly, giving rise to increasing social work caseloads in respect of vulnerable children. This is combined with increasing expenditure on placements, in particular those commissioned from the independent sector. Increased placement costs are predominantly due to the limited capacity of in-house services, but are also due to the changes in complexity of need for individual children and young people.

The portfolio continues to mitigate demand pressures as far as possible and has implemented a new Duty and Advice Service to manage the “front door” and assessment activity more effectively. They continue to explore options to re-focus and build capacity in our more cost-effective ‘in-house’ services, and are working towards the recruitment of additional foster carers and the development of our existing assets for targeted services for children and young people. Since implementation in November 2019, the new Duty and Advice Service has had a positive impact as the number of referrals into the service has decreased each week, however these strategies will take time to implement in order to affect real change, before we see fewer numbers of ‘looked after’ children and before there is a resultant reduction in the cost pressures. In addition, the availability of in-house carers and in social worker capacity, in our requirement to maintain placement continuity and stability, combined with a lack of joint funding, has impacted on the portfolio’s ability to reduce expensive placement costs. Whilst the portfolio continues to review services to offset financial pressures in year, options to mitigate the difficult financial position are much reduced.

In recognition of the social care pressures experienced by local authorities across the country, the Government has allocated additional social care funding in 2020/21 for which the council has received £3.6 million; this funding however is insufficient to meet all of the pressures and further savings are required.

A realignment and re-basing of the budgets within the portfolio is underway and a new Children's Corporate Support & Challenge Board has been established, chaired by the Chief Executive and attended by the Executive Member for Children, Young People and Education, the Executive Member for Finance and Resources, the Director of Children’s Services, the Director of Finance and Customer Services, the Director of HR, Legal and Governance and the Director of Digital and Business Change; this Board will provide oversight, support and challenge to the Executive Member and Director of the portfolio in their work to manage demand and to deliver a balanced budget in 2020/21 as this is the biggest area of financial risk to the Council.

6.1.3 Environmental Services

The portfolio manages a number of volatile and high value budgets that require close monitoring throughout each financial year including the costs associated with; Waste to Energy landfill tonnage, kerbside recycling tonnage, household waste recycling centres and transport and fleet related costs, along with income from car parks. The budgets have been realigned for 2020/21 to reflect the fact that the kerbside recycling contract has been brought back in-house, and to address income shortfalls and to increase waste budgets for known price increases and estimated tonnages.

In meeting the direction of travel for the Governments waste and resource strategy 'Consistency in household and business recycling', the government aims to make it easier for people to recycle by implementing a consistent and simplified approach across local authorities. The government will legislate to introduce a core set of consistent recyclable materials (including food waste) to be collected from all households and businesses, supporting frequent and comprehensive rubbish and recycling collections.

The recyclate processing companies are demanding cleaner paper and cardboard; our current mixed collections do not lend themselves to achieving this as our paper and cardboard are contaminated with food and drink carton residue, as well as glass shards from bottles; currently there is a cost to having our paper and cardboard processed, due to its quality.

The recent tender exercise for processing the recyclates we collect within the Borough, has seen the winning bidder offer a significant cost reduction for the separation of paper and cardboard from our mixed collections. A capital investment of up to £1.5million will enable the council to deliver annual revenue savings of £0.8 million.

In support of the Governments waste and resource strategy, and given the savings to be made from separating paper and cardboard from our current mixed recycling, Members are recommended (as per the Recommendation at Section 2.13 of the paper) to approve the introduction of a separate bin for paper and card.

6.1.4 Growth and Development

The portfolio faces significant pressures, particularly on the budgets for the markets and for highways. These pressures are being managed in 2020/21 through a realignment of budgets across the portfolio.

6.1.5 Finance and Governance

Whilst the portfolio is reporting a break even position against its budget in 2019/20, it is facing increasing pressures due to the current retail trading climate resulting in a reduction in the income received from the Council's share of the Mall, and also as a result of rent shortfalls at Cathedral Quarter. As with the other portfolios, the budgets are currently under review and will be realigned in 2020/21.

6.2 Other Pressures

6.2.1 Pay Awards and Pay Policy

Pay Award

In July 2019 the unions lodged their pay claim for;

- A 10% increase on all pay points and a minimum 'real living wage' of £10 per hour
- A two-hour reduction in the standard working week

At the time of writing the report, the NJC pay agreement for 2020/21 has not been agreed. In the absence of such agreement, like most other local authorities, the budget for 2020/21 and the period covered by the MTFS assumes a 2% pay award for each year. The outcome of these negotiations is critical given the clear cost pressures that any increase above 2% and a reduction in the working week would bring. Further information will be reported as this becomes available.

As is our standard approach, it is also assumed that the costs of incremental progression will be 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 level of £0.51 to £8.72 with effect from 1st April 2020 (for workers aged 25 and above). Increases have also been confirmed in the National Minimum Wage levels as follows;

- Increase from £7.70 to £8.20 per hour for 21-24 year olds
- Increase from £6.15 to £6.45 per hour for 18-20 year olds
- Increase from £4.35 to £4.55 per hour for 16-17 year olds
- Increase from £3.90 to £4.15 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 in the 2020/21 budget include some provision for increases in provider hourly rates and contract changes from the increase in the NLW with effect from 1st April 2020, 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 this at this stage. In addition the portfolio will look to contain some of the increased cost of provider fees through the delivery of efficiencies and alternative delivery models as far as possible.

Provision has been made within the MTFS for NLW increases in future years however as indicated above, it is not possible to precisely quantify the full financial impact of NLW increases year on year due to changes in demand and the care provider market.

It is recommended that delegated authority is given to the Executive Member for 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 2020/21, applicable from April 2020.

6.2.3 Pensions

The triennial actuarial valuation of the Local Government Pension Scheme in 2019, has identified an increase from 14.8% to 17.4% in Employer Pension contributions for the Blackburn with Darwen Borough Council section of the fund for the next 3 years; 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.

Following discussions with the Scheme Actuary and the Head the Lancashire County Pension Fund, and following agreement by the Lancashire Local Pension Board, it has been agreed that the Council will take a stepped approach to implementing the increase over the next 3 years.

The Council will continue to repay the scheme deficit over an agreed 16 year repayment period but also, as noted in **Section 6.2.6** below and as per **Recommendation 2.14** at the beginning of this report, Members are recommended to reduce costs further by taking advantage of the discount offered for early payment, i.e. by paying all of the above pension contributions at the start of the 3 year period. This will result in a net saving, after accounting for interest on borrowing, of approximately £1.5 million across the 3 year period; the Budget for 2020/21 and the MTFS has been prepared on the assumption that the upfront payment will be made.

6.2.4 Apprenticeship Levy

The 2020/21 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 has assisted in the costs of training 178 apprentices recruited into the workforce since 2017/18, and we intend to recruit more apprentices during 2020/21 as part of our workforce development strategy. Support of approximately £0.5m is included within the 2020/21 Budget to corporately fund the salary costs of a rolling programme of approximately 20 trainees 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 2020, the Consumer Price Index (CPI) for December stood at 1.4%, whilst the comparable figure for the Retail Price Index (RPI) was 2.2%.

Within the 2020/21 Budget and MTFS, provision has only been made for specific inflation on more volatile areas of expenditure such as utilities and waste and also for agreed price inflation within our larger contracts. For more ‘general consumables’, it has been assumed that this will be contained within existing budgets.

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 has held steady over the course of 2019/20, and is expected to remain at current levels in the near future.

Interest estimates are based on the Council continuing to use short-term borrowing, given the cost of long-term borrowing through the PWLB (Public Works Loan Board) is now a relatively expensive option, following their 1% increase in interest rates in October 2019. The Council's forecast average short-term borrowing rates are 0.89%.

	2020/21 £m	2021/22 £m	2022/23 £m
Interest and Investment Income	(0.215)	(0.179)	(0.179)
Debt Interest Payable	12.990	12.922	12.476
Minimum Revenue Provision	6.835	7.264	7.710
TOTAL Net Interest Cost	19.610	20.007	20.007
Forecast Capital Spend Financed by Borrowing	15.784	3.150	3.150

Debt interest payable and Minimum Revenue Provision increase as a result of capital spending funded by borrowing. As mentioned in **Section 6.2.3** above, and as per **Recommendation 2.14** at the beginning of this report, the Council is recommended to take advantage of the discount offered for early payment of pension contributions, which will be funded by borrowing; the costs of this have been reflected in the above table.

7. SUMMARY

In light of the Local Government Finance Settlement for 2020/21 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 2020/21, we cannot be complacent as this is predicated on estimates and assumptions that are not without risk;

- risk that the forecast and provisions for demand are outstripped
- risk that the expected income streams are not realised
- risk that the use of strategic reserves may not be possible

The MTFS highlights a budget gap for 2021/22 of £2.7million, and £7.6million for 2022/23, 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 2020-2023

In order to deliver the Capital Strategy, we recommend Finance Council approve the proposed Capital Programme for 2020 through to 2023 of £64.0 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 including investment in:

- our local transport plan, including both our successful Growth Deal 3 bid to open up the Pennine gateways around the borough and our Fabric Borders scheme, all of which will facilitate housing and business growth
- aids and adaptations through provision of disabled facilities grants held within the Better Care Fund pool
- 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, incorporating a cinema complex development
- facilitating housing and business growth
- support of income generation and commercialisation opportunities
- support of continued investment in IT services to underpin our 'digital first' approach to delivering efficiencies and in turn, cash savings
- support of our accommodation review which again will drive efficiencies and savings through rationalisation and a more cost effective use of space.

Allocations are included for:

- creation of additional school places required within the Borough
- expected investment in existing assets

Within the capital programme there is also a Property Investment Fund, which enables the Council to invest in land and property should the opportunity arise.

Before projects are allocated funding however, they are subjected to a rigorous business case approval process and detailed Member reports are produced in line with financial procedures as required.

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 2020/21 Budget and the Recommended Level of Reserves', the Director of Finance and Customer Services is recommending to Finance Council that the minimum level of Unallocated Reserves for 2020/21 remains at £4.0m.

10. COUNCIL TAX

The assumptions made within these budget proposals, which are in line with those made by the Government, are that the Council will increase Council Tax in 2020/21 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 2020 to 2023 at **Appendix D** has been reviewed and updated, incorporating;

- the one year funding settlement for 2020/21,
- estimates for income and resources for 2021/22 and 2022/23, acknowledging that these are made in the absence of any information or detail regarding the allocation of local government funding for 2021/22 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 2020/21 and Portfolio Controllable Budgets

- Appendix B - Balancing the 2020/21 Budget Gap
- Appendix C - Capital Programme 2020-23
- Appendix D - Medium Term Financial Strategy 2020-23
- Appendix E - Pay Policy Statement 2020/21

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 2020/21, the Capital Programme and the level of Council Tax, together with indicative figures for the following 2 years through to 2022/23.

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. Over the course of 2019/20, 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, views on proposed changes to services, and their preferred approaches to delivering savings and balancing the budget. These have included a National Highways and Transport Survey 2019, a Waste and Recycling Survey 2019, 'Our Community, Our Future' engagement activities, various service user consultations, including the development of a Customer Panel and Digital Customer Portal drop in sessions and the Council's Employee Survey 2019.

This feedback has helped to shape the 2020/21 Budget, the MTFS and the Capital Programmes proposals.

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

DATE: 24th February 2020