APPENDIX D

MEDIUM TERM FINANCIAL STRATEGY 2020 to 2023

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 2023/24, as for the MTFS presented to Finance Council in 2019, this MTFS has been limited to 2 rather than 3 additional years, i.e. to 2022/23, 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 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 2020/21, and uncertainty and risk prevails in the unknown future changes in funding from 2021/22, 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 one-year settlement for 2020/21 is a short term measure until the 2020 Budget, a Spending Review and changes in funding policy are made nationally to assist in planning for 2021/22 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 the Improved Better Care Fund,
- the funding of Adult Social Care and any future plans for the 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 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; one year later and we are still awaiting the response. The proposals put forward are summarised below.

Future baseline funding levels will equal;

The Relative Needs share of the LA

LESS

A Relative Resources adjustment.

Where Relative Needs comprises;

A Foundation Formula – which it was proposed should be 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 determined and,

Where Relative Resources comprise;

- 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.

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 21st February 2019, given the political turmoil of 2019 and Brexit, 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; as such we must await the publication of these plans, on a date as yet to be confirmed.

3.4 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; 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 and it has been assumed within the MTFS that costs will be reduced 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 plan; this will result 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 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 emerged over the course of that year
- a savings programme of £4.7m developed during 2019/20 to close the budget gap of £5.7m for 2020/21, as identified at the Finance Council in 2019, and as for the previous year, to address both the cost pressures and further reductions in income that have emerged over the course of the year to date

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	2020/21 £M	2021/22 £M	2022/223 £M	ASSUMPTIONS FOR 2021/22 and 2022/23
Revenue Support Grant	13.5	0.0	0.0	It has been assumed that the mechanics of the Lancashire 75% BRR pilot model are a proxy for the government's final 75% BRR scheme i.e; • that RSG will end • that all of the Business Rates related grants will form part of the new Business Rates Baseline following reset Top-up plus Locally retained Business Rates equals the Business Rates Baseline, therefore it is assumed that as locally retained Business Rates increase by an inflationary uplift each year, that the Top-Up (the balancing figure) will reduce so that the overall Business Rates Baseline remains the same.
Top Up	24.3	32.3	31.8	
Locally retained Business Rates	20.7	31.0	31.5	
Business Rates related grants	5.0	0.0	0.0	
Council Tax	56.0	57.4	58.9	The MTFS assumes; • the MTFS has included a prudent estimate for growth in the tax base of £300k for both 21/22 or 22/23 – this model is under continuous review, 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	0.7	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	0.6	0.5	0.4	It is assumed that Housing Benefit Admin Grant will reduce as more claimants move over to Universal Credit.
New Homes Bonus	1.0	0.7	0.2	Given the uncertainties around this funding, the MTFS assumes we will have no new NHB in 2021/22 and 2022/23
Building Schools for the Future (BSF) Private Finance Initiative (PFI) funding	8.5	8.5	8.5	The funding level was agreed with Government at the outset of the PFI projects
Improved Better Care Fund	8.1	8.1	8.1	In the absence of any further information regarding the future of Adult Social Care funding, the MTFS assumes that the iBCF 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 these can be addressed without a similar level of government funding being provided as a minimum
Social Care Support Grant	4.9	4.9	4.9	It is assumed that both the £1.3m included within the latest 4 year settlement and the additional funding of £3.6m received in 2020/21 will continue in some form to support social care
TOTAL RESOURCES	**143.3**	**143.4**	**144.3**	

EXPENDITURE	2020/21 £M	2021/22 £M	2022/23 £M	ASSUMPTIONS FOR 2021/22 and 2022/23
Portfolio Controllable Budgets	114.8	114.6	114.6	The MTFS reflects the removal of non-recurring income, expenditure and one-off savings from the 2020/21 budgets
Contingencies	9.8	12.6	18.4	The assumptions made in respect of contingencies held in future years include; • Provision for a Pay award - 2% assumed in both 2021/22 and 2022/23 • Provision for Inflationary uplift on specific expenditure lines – assumed approximately 2% in respect of social care commissioning and energy in both 2021/22 and 2022/23 • Provision for increases in National Living Wage • Apprentice Levy and support for Corporate Apprentices • Increases in current service Employer Pension contributions from 14.8% to 17.4% over the 3 year period • Payment of Pension Fund Deficit
Interest paid/received and MRP	13.3	13.8	13.8	The figures for 21/22 and 22/23 include planned net borrowing and increases in MRP to reflect the capital programme and upfront payment of pension contributions
Interest paid/received and MRP in respect of PFI projects	6.3	6.2	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	(1.5)	(1.4)	(1.4)	DSG Central Services funding for the historic commitment for prudential borrowing has reduced by 20% in 20/21 and a further reduction is estimated for 21/22 however this is not yet confirmed.
Parish precepts/grants	0.2	0.2	0.2	Assumed at their 20/21 levels
Transfer to (+) / from (-) Earmarked Reserves	(0.4)	0.1	0.1	
Replenishment of Unallocated Reserves	0.5	0.0	0.0	
TOTAL EXPENDITURE	**143.3**	**146.1**	**151.9**	
BUDGET GAP	**0.0**	**2.7**	**7.6**	

The above figures assume that the Settlement Assessment will remain at the same level as 2020/21 in both 2021/22 and 2022/23, however we have also undertaken modelling to assess the impact of alternative scenarios as follows;

	2020/21	2021/22	2022/23
Scenario 1 - no reduction in Settlement Funding Assessment (SFA) (as above)			
Total Resources	143,375	143,355	144,229
Total Net Council Expenditure	142,875	146,139	151,851
Use of balances to support budget (-ve) or contribution to balances (+ve)	500	(2,784)	(7,622)
Scenario 2 - 3% reduction in Settlement Funding Assessment (SFA)			
Total Resources	143,375	141,057	141,931
Total Net Council Expenditure	142,875	146,139	151,851
Use of balances to support budget (-ve) or contribution to balances (+ve)	500	(5,082)	(9,920)
Scenario 3 - 5% reduction in Settlement Funding Assessment (SFA)			
Total Resources	143,375	139,542	140,416
Total Net Council Expenditure	142,875	146,139	151,851
Use of balances to support budget (-ve) or contribution to balances (+ve)	500	(6,597)	(11,435)

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 21/22 and 22/23 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 over £11.4 million 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

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, but only just, managed to do so for 2020/21.

From an income perspective, the 4 year settlement provided some stability for financial planning through to 2019/20 but as outlined above, the one-year settlement for 2020/21 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 2021/22 and beyond 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 of adult social care and the potential integration of social care with health to name just a few of the headline changes ahead which post significant risk to us.

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 £2.7m in 2021/22 and £7.6m in 2022/23 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.