BLACKPOOL COUNCIL

REPORT

of the

DIRECTOR OF RESOURCES

to the

EXECUTIVE

on

12 SEPTEMBER 2016

MEDIUM-TERM FINANCIAL SUSTAINABILITY STRATEGY 2016/17 – 2021/22

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1. Introduction

1.1 This report constitutes the Council's Medium-Term Financial Sustainability Strategy (MTFSS) for the 6-year period, 2016/17 to 2021/22.

1.2 Since 2010 central government funding for local government has been progressively reduced in real terms as part of the Government's plan to lower the fiscal deficit and this policy will continue until at least the end of the current decade.

1.3 Blackpool Council is committed to protecting vital services, but to remain financially sustainable has had to respond with recurrent savings of £93.4m from its revenue expenditure up to the end of 2015/16. During the term of this Strategy a further £60.1m of savings is forecast to be needed.

1.4 Each successive year the scope remaining for savings from efficiency measures becomes less. Indeed savings achieved to date represent over 6 times the cost of the Council's combined back office services. Delivering savings of this magnitude has had an unavoidable impact on service levels, resident satisfaction ratings[1], jobs and morale, but by 2022 more radical, fundamental, transformational and sustainable solutions will be necessary.

1.5 Against this backdrop the proposed Strategy summarises the comprehensive review and assessment that has been undertaken of how the Council can finance its future service delivery and the level of savings needed if these activities are to be facilitated and maintained. It also considers the risks anticipated throughout what is forecast[2] to be an ongoing harsh economic climate for local government.

2. Purpose, Procedure and Guiding Principles

a) Purpose

2.1 The overall purposes of the Strategy are:

- primarily to provide a financial framework for the Council's medium-term budgets, based upon the predicted levels of income available to it over the period and the savings that will be

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[1] *Polling on resident satisfaction with councils*, Local Government Association July 2016

[2] *Chancellor of the Exchequer's Budget*, 16th March 2016

necessary to contain expenditure within these limits in order to fulfil its statutory obligation to balance its budget[3];

- to convey a clear direction of travel, identifying and managing the prevailing risks, modelling different futures and giving focus to the most important and influential variables, thereby avoiding significant changes in direction;

- to comply with the conditions set by the Secretary of State for Communities and Local Government in March 2016 that acceptance of the 4-year Funding Settlement Offer 2016/17 - 2019/20 requires publication by 14th October 2016 of a 4-year 'efficiency plan' that "can be combined with medium-term financial strategies"; and

- to demonstrate that Blackpool Council will still be operating as a sustainable and viable going concern 6 years hence.

2.2 Presentation of this Medium-Term Financial Sustainability Strategy has purposely been delayed as close as possible to the Efficiency Plan deadline in order to understand and incorporate the outcomes of the European Union membership referendum result; the views of the local government sector on such key Government consultations as 100% Business Rates Retention and New Homes Bonus; and professional advice from the sector, in particular from the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Government Association (LGA), on preparing and submitting an Efficiency Plan.

b) Procedure

2.3 In the medium term of 2016/17 - 2021/22 the challenge of the Strategy has been to account for the complexity of influences, assumptions and uncertainties which can affect predictions and with the best information and intelligence available:

- Forecasting the future funding envelopes which will become available to the Council over each year of the plan and the risks involved in making those predictions - The totals will include funding from the Settlement Funding Assessment (SFA), other central government and specific funding, partnership funding and locally-raised taxation and income. Although the multi-year settlement agreement should mitigate against the previous process in which there could be up to 6 major and varied Government funding announcements within a single year, national policy changes such as the proposed 100% Business Rates Retention will inevitably add back volatility to the system.

- Forecasting the projected expenditure and alignment of resources across more than 250 service heads in accordance with the Council's Plan 2015 - 2020 and its commitments and priorities for local service development and delivery.

- Forecasting the proposed profile of expenditure budgets over the period of the Strategy and, taking into account certain key assumptions such as levels of Council Tax and transfers to/from reserves, the amount of savings which will be needed to balance the budgets and the high level measures necessary to realise these savings.

c) Guiding Principles

2.4 The preparation of the Medium-Term Financial Sustainability Strategy has therefore to take place within an extremely complicated matrix of forecasts and assumptions. Throughout and overriding

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[3] *Section 100 of the Local Government Act 2002*

the process, however, the formulation of the Strategy has been governed by eight guiding principles:

i) the statutory obligation to balance the Council's Budget in each year of the period
ii) resourcing services in line with Council priorities
iii) embedding a culture of value for money and efficiency savings in all activities
iv) keeping Council Tax levels as low as possible
v) maximising the level and resilience of the resources of cash, assets and people by attracting grants, generating additional income or creating partnering arrangements
vi) ensuring significant risks are identified and mitigated where possible
vii) ensuring financial reserves reflect the levels of business and risk
viii) optimising capital spending freedoms.

3. Context

The Medium-Term Financial Sustainability Strategy is not written in isolation but attempts to reconcile both the national and local contexts:

a) National

3.1 Within the Budget 2016 the Chancellor recognised the funding pressures facing councils and local services over the next few years and chose not to announce any more cuts to local government than those announced in the previous November's Spending Review. As at that point central government departmental funding (known as Departmental Expenditure Limits (DELs)) was as follows, which gives a good indication of the impact on the local government sector as a whole, though not by individual local authority:

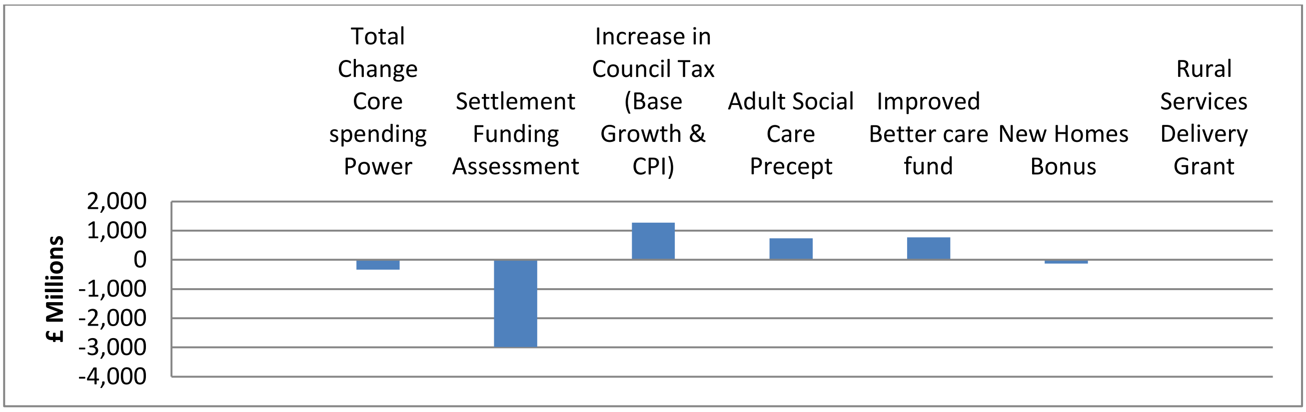
Central Government	2016/17 £bn	2017/18 £bn	2018/19 £bn	2019/20 £bn	2020/21 £bn	2021/22 £bn
All Departmental Expenditure Limits	321.8	324.0	326.7	329.7	N/a	N/a
Local Government DEL	9.6	7.4	6.1	5.4	N/a	N/a
	3.0%	*2.3%*	*1.9%*	*1.6%*	*N/a*	*N/a*

3.2 In the following month of December 2015 the 4-year Local Government Finance Settlement was announced as follows:

Local Government	2016/17 £bn	2017/18 £bn	2018/19 £bn	2019/20 £bn	2020/21 £bn	2021/22 £bn
SFA – Revenue Support Grant	7.2	5.0	3.6	2.3	N/a	N/a
SFA – Business Rates	11.4	11.6	12.0	12.2	N/a	N/a
Council Tax	23.2	24.5	25.8	27.3	N/a	N/a
New Homes Bonus	1.5	1.5	0.9	0.9	N/a	N/a
Rural Services Delivery Grant	0.1	0.1	0.1	0.1	N/a	N/a
Improved Better Care Fund	-	0.1	0.8	1.5	N/a	N/a
Transition Grant	0.1	0.1	-	-	N/a	N/a
Core Spending Power	**43.5**	**42.9**	**43.2**	**44.3**	**N/a**	**N/a**
Memo: Revenue Support Grant + New Homes Bonus + Improved Better Care Fund	*8.7*	*6.6*	*5.3*	*4.7*	*N/a*	*N/a*
Unexplained difference from Local Government DEL	*0.9*	*0.8*	*0.8*	*0.7*	*N/a*	*N/a*

This reinforces DCLG's assertion that by 2019/20 Local Government's Core Spending Power will have returned to the level that it was in 2015/16. However, this ignores individual local authority allocations, demand factors such as population growth and demographic pressures and, as the bar chart[4] on the following page indicates, substitutes central government funding reductions in the main with assumed council tax increases and council tax growth.

[4] *Cash Changes in Core Funding Support 2015/16 – 19/20 for Society of Municipal Treasurers and Society of Unitary Treasurers*, Local Government Association



3.3 The equivalent shares for Blackpool Council are listed below, but under the Secretary of State's 4-year settlement offer it is only the Revenue Support Grant that would be known and fixed for Blackpool Council as the Council does not benefit from the other two central government funding streams of Transition Grant and Rural Services Delivery Grant:

Blackpool Council	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
SFA – Revenue Support Grant	31.6	24.5	19.7	14.8	N/a	N/a
SFA – Business Rates	43.4	42.9	44.0	45.1	N/a	N/a
Council Tax	45.5	48.3	50.2	52.1	N/a	N/a
New Homes Bonus	1.7	1.2	0.7	0.3	N/a	N/a
Rural Services Delivery Grant	-	-	-	-	-	-
Improved Better Care Fund	0.0	1.0	5.0	8.4	N/a	N/a
Transition Grant	-	-	-	-	-	-
Core Spending Power	**122.2**	**117.9**	**119.6**	**120.7**	**N/a**	**N/a**

b) Local

3.4 <u>The Council's Corporate Objectives and Priorities</u>

The local context of the Medium-Term Financial Sustainability Strategy is focused directly on enabling the delivery of the Council's vision and its 2 themed priorities of:

i) the economy – maximising growth and opportunity across Blackpool; and
ii) communities – creating stronger communities and increasing resilience.

In addition to these 2 externally-facing corporate priorities, the Council has an additional focus on organisational resilience – the efficient and effective running of the organisation which enables us to deliver quality services. This ensures we have the vital support functions and staff capable of delivering its objectives, staff who are professional, well-trained, rewarded and motivated. These priorities and the specific service actions to fulfil them drive the allocation of revenue budgets which are then translated into departmental business and service plans for the day-to-day service delivery.

3.5 Continuous revisiting of this priority-led budgeting process is undertaken by reviewing i) the categorisation of service areas from those which are protected or deliver income, to those which are highly or less highly desirable and finally to those which are non-priority and could be eligible to be phased out plus ii) latest spend and performance against targets. This process informs the potential for savings for which percentage or absolute targets are allocated on an increasing scale as the relevance of the service areas' contribution to the Council's priorities decreases. These rigorous measures keep service delivery on track with the Council's priorities and reveal whether they are operating within reasonable resourcing levels.

3.6 Local Demand for Services

The national Index of Multiple Deprivation last published in 2015 ranked Blackpool as the most deprived local authority in England according to the 'rank of average scores' measure. This is a worsening trend with a higher rank than both the 2010 (6th most deprived) and 2007 (12th most deprived) releases. The 2015 overall ranking results from the aggregation of numerous indices including poor health, housing, educational achievement and low levels of employment and wages. Coupled with Blackpool's demographic profile, transience and the high percentage of elderly population, these characteristics place disproportionate demands on a range of local services.

3.7 Office for National Statistics trend-based population projections in 2016 showed that Blackpool is 1 of only 2 upper-tier authorities of the 152 in total which will experience a population reduction (-0.94%) between the baseline year of 2014 and 2020. Whilst central government Revenue Support Grant (RSG) funding is primarily capita-driven, it is nonetheless a reducing element of Settlement Funding Assessment so this phenomenon should not in itself adversely affect the Council's revenue.

3.8 Future Prospects for Local Council Services

Much research has been undertaken on the prospects for and sustainability of local council services. The LGA in its publication *Funding outlook for councils from 2010 to 2020* predicted that if the pattern of cuts to local councils continued they will be unable to deliver the same service offer by the end of the decade. After accounting for the provision of statutory service obligations (in particular, social care and waste management), the LGA's financial projections pointed to there being in real terms critically low levels of funding left by 2020 for other service blocks, predicting that fundamental change would be needed to the way local services are organised and funded and indeed citizens' expectations of what councils would then be able to provide. Despite subsequent Government policy changes primarily targeted at adult social care funding, there still exist serious concerns about the viability of local government to deliver even its statutory functions as evidenced by CLG Select Committee inquiries, National Audit Office reviews and studies of CIPFA, Institute for Fiscal Studies, Local Government Information Unit, Association for Public Service Excellence and the principal accounting firms.

4. Key Influences

The Medium-Term Financial Sustainability Strategy is heavily influenced by certain key considerations, in particular:

4.1 Government Funding

Blackpool Council's Provisional Settlement Funding Assessment for 2016/17 announced in December 2015 included a like-for-like reduction of 19.5% to its Revenue Support Grant (RSG) but also included a multi-year Settlement offer through to 2019/20. Whilst RSG will reduce by a further 42.9% during this 3-year period, such a winding-down of RSG does not come as any surprise as the Government has always maintained that this was its intent but the introduction of some certainty to the Settlement process is welcomed for financial planning purposes.

Alongside RSG the Government has announced that an Improved Better Care Fund will be introduced from 2017/18 to address pressures in adult social care with additional funding of £100m in 2017/18, £800m in 2018/19 and £1.5bn in 2019/20, partly met by a top-slicing of New Homes Bonus – assumptions have been made of Blackpool's pro-rata allocation and built into the medium-term financial plan.

A technical consultation on *New Homes Bonus: Sharpening the Incentive* concluded in March 2016 but DCLG's response is now 2 months overdue. New Homes Bonus (NHB) is an incentive grant paid by central government to local councils over a rolling 6-year period from 2011/12 for increasing the number of new-build homes, conversions and long-term empty homes brought back into use. When the NHB scheme was first established, the Government provided £950m to fund the scheme. However, as the amount distributed by the scheme increased, funding required over and above the DCLG-funded element has had to be deducted from the general local government funding pot (i.e. originally Formula Grant and for 2013/14 onwards from Revenue Support Grant). Blackpool Council's estimated share of the annual 'top-slice' is £4.5m. In return its annual NHB allocations are shown in the table below. In the absence of a formal response by DCLG to the consultation and probable policy changes to the scheme it has been prudently assumed that 2016/17 will be the last year of 6-year funding commitments.

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Year 1	£466,147	-	-	-	-	-
Year 2	£565,325	£565,325	-	-	-	-
Year 3	£364,048	£364,048	£364,048	-	-	-
Year 4	£25,200	£25,200	£25,200	£25,200	-	-
Year 5	£18,900	£18,900	£18,900	£18,900	£18,900	-
Year 6	£252,456	£252,456	£252,456	£252,456	£252,456	£252,456
Year 7	-	N/k	N/k	N/k	N/k	N/k
Totals	**£1,692,076**	**£1,225,929**	**£660,604**	**£296,556**	**£271,356**	**£252,456**

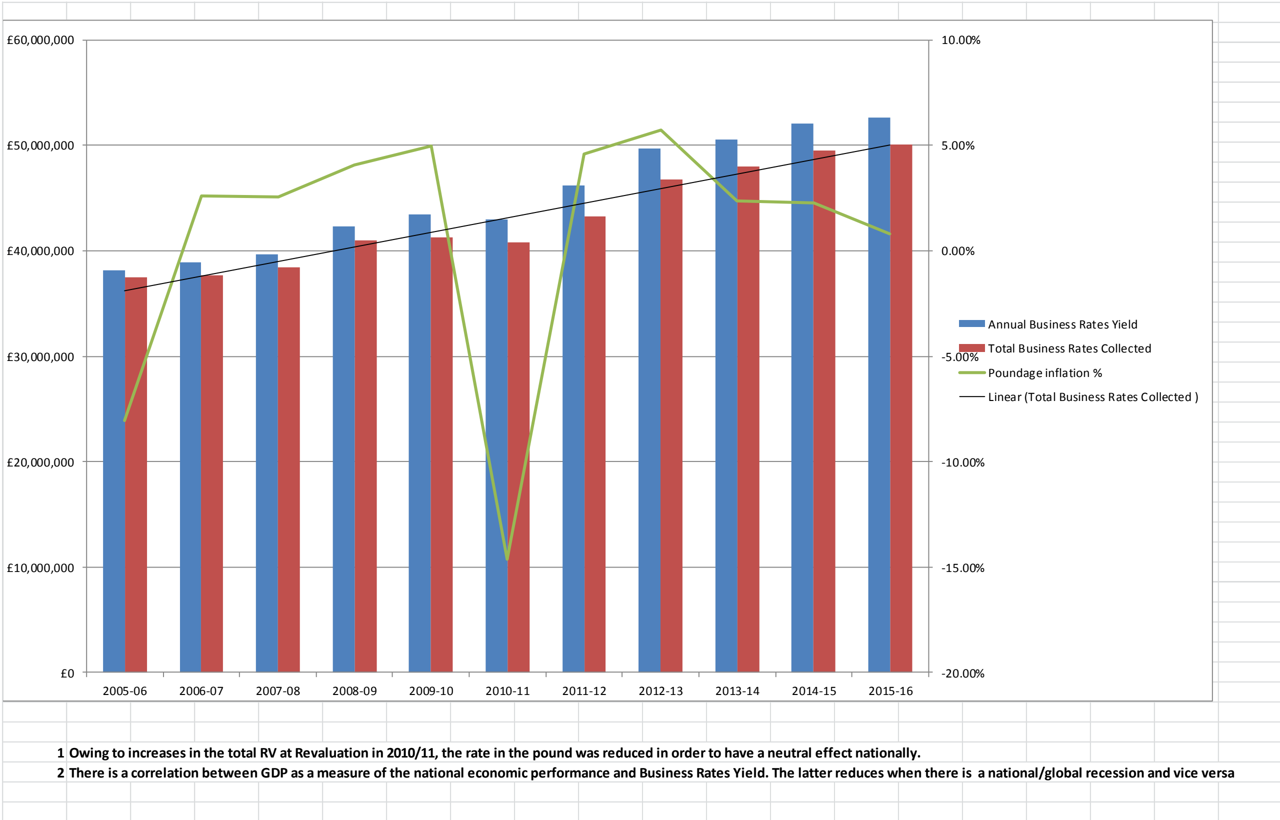
4.2 Business Rates

Prior to April 2013 Business Rate income was collected by billing authorities on behalf of central government and then redistributed among all local authorities and police authorities as part of Formula Grant. From 1st April 2013 the income relating to Blackpool is shared between central government (50%), the Council (49%) and the Fire Authority (1%). Consequential adjustments were made to the Formula Grant / RSG equivalent. As part of the Business Rates Retention (BRR) Scheme there is a safety net which sees that no authority's income falls by more than a set percentage of their original baseline funding level (this level is increased by RPI every year). The Government set the safety net percentage at -7.5%. The costs of any successful valuation appeals are shared between central government (50%), the Council (49%) and the Fire Authority (1%). This includes any backdating of the appeal, which may even precede the April 2013 BRR launch date and thus presents further unfunded risk. In the last 3 years Blackpool has paid out £9.9m in successful backdated business rate appeals of which it has been responsible for meeting 49%.

In October 2015 the then Chancellor announced a 'devolution revolution' that primary legislation would be introduced to allow councils to keep 100% of business rates by the end of the Parliament and RSG would be phased out. However, on a national footprint RSG amounts to £2.4bn whilst 50% business rates amount to £13.0bn, an apparent windfall of £10.6bn to local government. Thus, a new system would have to be devised which absorbed existing grants such as Public Health and Housing Benefit Administration and/or transferred new services and responsibilities in order to negate this windfall. Further complications were identified which included the sharing or pooling of business rates with other tiers such as combined authorities, the need for and funding of a safety net, the impact of periodic revaluations and resets, treatment of the Central List (mainly network properties such as telecoms networks), the exemption of Enterprise Zones, local tax flexibilities, managing appeal risk and an incentivised needs and distribution methodology to underpin a 'Fair Funding Review'.

Although one of the key Government drivers for 100% BRR was to incentivise economic regeneration and growth at a local level, the issue of volatility becomes more critical with a larger proportion of income being received from a source that correlates more with regional, national (GDP), even global economic productivity whilst suffering from the vagaries of the Valuation Office

Agency appeals system. This is illustrated by the following graph which shows the variations of annual business rates collected in Blackpool from 2005/06 to 2015/16 around a 'line of best fit':



On 13th June 2016 the Communities and Local Government Committee published its report following an inquiry into 100% BRR, making 7 recommendations and listing numerous issues for consideration. This report can be found at:

http://www.publications.parliament.uk/pa/cm201617/cmselect/cmcomloc/241/241.pdf

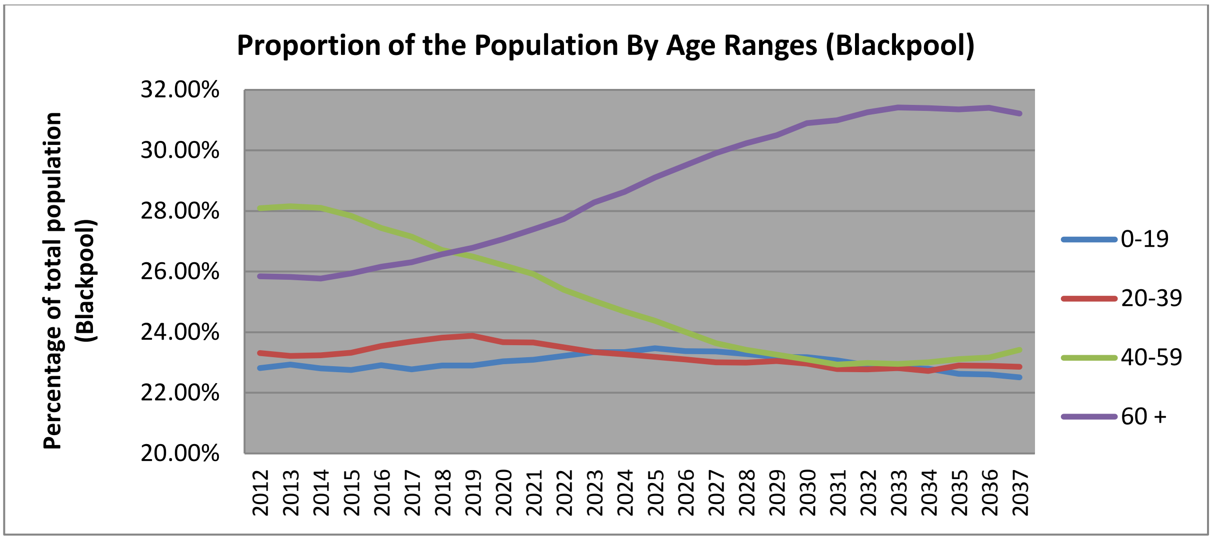
Subsequently DCLG published a consultation paper entitled *Self-sufficient local government: 100% Business Rates Retention* on 5th July 2016 with a response end date of 26th September 2016. A further consultation on proposals for reforming the business rates appeals process was published on 16th August 2016 with an end date of 11th October 2016. Therefore, as this issue has such a fundamental bearing on Blackpool Council's future funding, until a new system of BRR is devised and formally announced this Strategy and Medium-Term Financial Plan will assume that the existing system is maintained.

4.3 Council Tax

For the 6 years to 2015/16 Council Tax in Blackpool had remained effectively unchanged at £1,306.00 for a band D property. In addition, the average Council Tax payable of £764.40 was the lowest in Lancashire. However, by 2016/17 the pressure of Government funding constraints necessitated an increase as the ability to deliver savings whilst maintaining effective service levels became untenable. Council Tax was uplifted by 1.99% within the Government's 2.0% cap in addition to which an Adult Social Care Precept of 2.0% was permitted up until 2019/20 to address the pressures in that service. These uplifts are incorporated within the Government's assumptions for all councils' Core Spending Power and as a result and for consistency they have also been factored into Blackpool Council's Medium-Term Financial Plan. **However, it is for the Council to appraise and approve any changes to Council Tax each and every year as it deems appropriate in the prevailing circumstances.**

4.4 Specific Budget Pressures

The Council faces a number of specific and known pressures to its medium-term revenue budget which have needed to be recognised, in particular in Children's and Adult Services, a phenomenon being reported across all relevant treasurer networks[5]. The Children's Social Care budget was increased by £2.0m in 2016/17 to reflect the level of Looked After Children at the time of budget-setting (468) and the Children's Services Directorate are working to reduce current numbers (493) back to budgeted levels by the end of the current financial year, but increased levels of referrals to children's social care departments are being reported across the country, in particular following a catalogue of high profile child sexual exploitation cases. Adult Social Care placement costs are expected to be approximately £34.7m in 2016/17 for about 2,274 service users, but as the graph below demonstrates the relative difference in Blackpool between the over 60s (the main client group) and the under 60s over the next 2 decades is due to diverge significantly, creating further financial pressures.



In addition to an increasing number of cases, Blackpool is also facing an increase in the complexity in client needs. As evidenced by the current demands being placed on acute hospitals, many of our older residents are living longer, but are suffering from increasing health problems. This means meeting much higher health needs outside the hospital environment than ever before.

Besides the aforementioned social and demographic issues, welfare reforms and the general effects of the economic climate do influence residents' and indeed visitors' personal levels of spending on some of the Council services and their ability to pay on others. Both can impact adversely on levels of locally-generated income.

4.5 Staffing and Workforce Planning

Since the Comprehensive Spending Review commenced in 2010 up to the end of this financial year the Council will have seen a reduction of £118.5m in its budget and as a result the staffing levels will have fallen from 3,411 full-time equivalents (FTEs) to 2,200. The majority of these reductions have been as a result of either compulsory or voluntary redundancy with current turnover levels of 14.0% (including redundancies) or 8.7% (excluding redundancies). The graph overleaf illustrates that despite having inherited new services such as Public Health and Children's Centres since the start of the millennium, staffing levels now are in fact less than they were 16 years ago.

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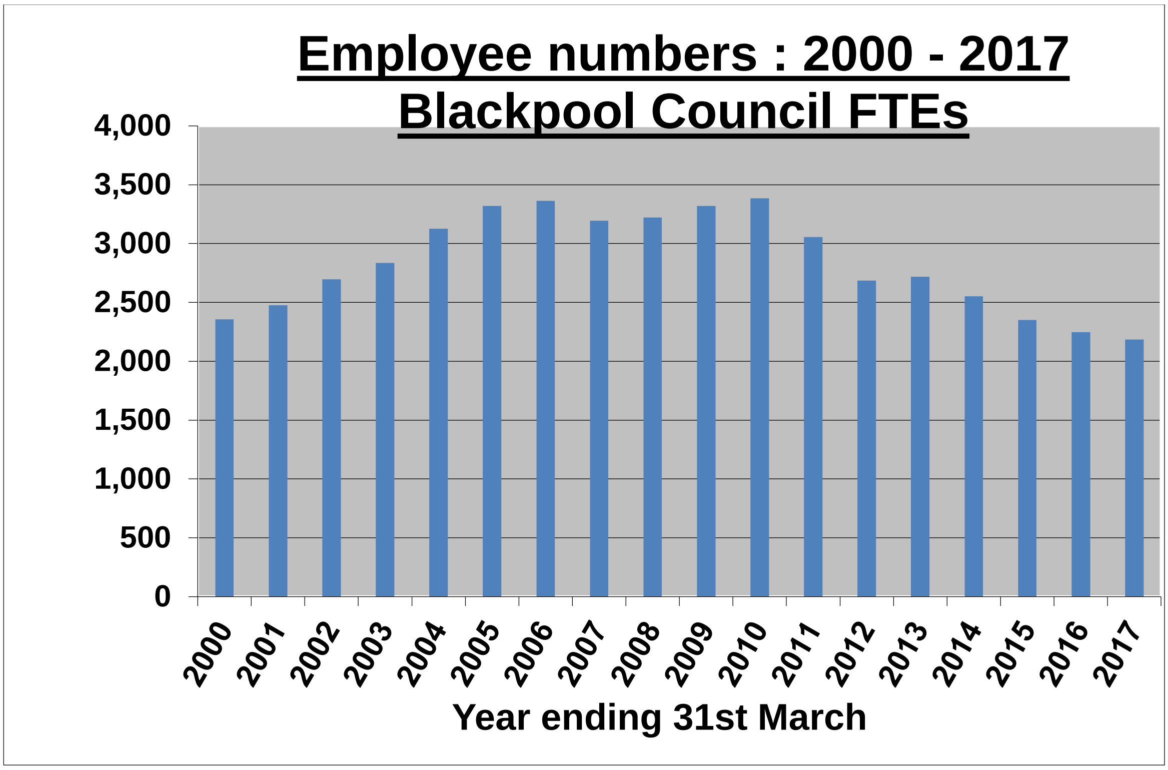
[5] *Unitary Treasurers Group, Society of Municipal Treasurers and Greater Manchester Association of Metropolitan Treasurers*

Further reductions in employee numbers are expected in 2017/18 as a result of the continuing austerity measures. These will come about as a result of services ceasing, reducing or being reconfigured and delivered differently, but until the detail of budget savings plans have been formulated this number is not yet known.



The costs of redundancies and pension strain continue to be managed centrally through an earmarked reserve. Although this reserve is being depleted each year by approximately £2m, last year's restructuring of the Minimum Revenue Provision has enabled funds to be released to top this up. The Government has consulted on an 'Exit Cap' of £95k which is likely to come into effect in October 2016 and whilst this may have some mitigating impact on costs it is unlikely to be substantial given that there have only been 15 such cases tripping this threshold since 2011. The earmarked reserve is constantly monitored and if necessary options for replenishment or displacement will need to be considered which may include applying for a Capitalisation Directive.

In terms of pay the NJC Pay Award for 2016/17 has been settled and as this was a 2-year deal it provides some certainty going forward. The Council was already paying the Foundation Living Wage to its employees and therefore the introduction of the National Living Wage did not impact on costs for Council employees, however, it is having a significant impact on commissioned services.

The introduction of Pensions Auto Enrolment and the ending of the Transitional Delay Period in 2017 will result in any eligible employee who is not in the pension scheme being enrolled and this will inevitably lead to an increase in employer's pension costs. The amount of the increase will be dependent upon how many eligible employees are not already in the scheme at that time and how many of those that are enrolled taking a decision to remain in the scheme rather than opting out.

To support the ongoing budget deficits Council employees have continued to take voluntary unpaid leave of 5 days per year on average, saving approximately £1m per annum. This option will continue in future years and it is hoped that staff's co-operation will continue.

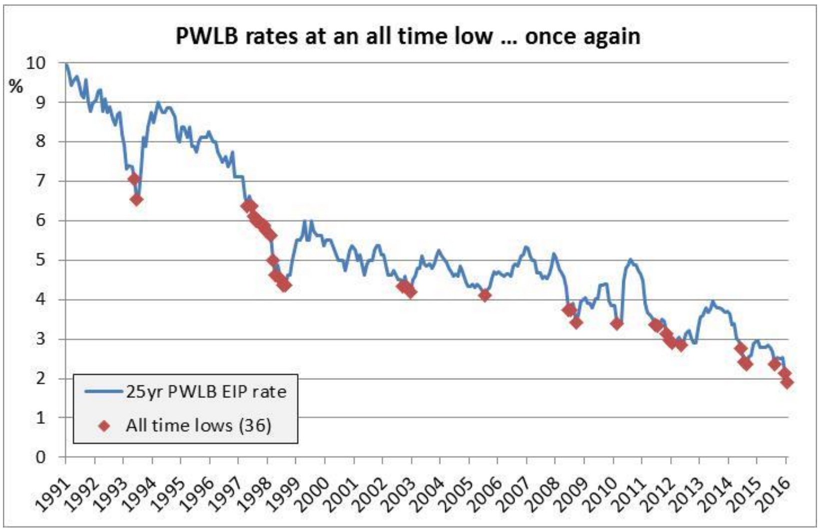
Despite the above, turnover (excluding redundancies) is still lower than the Chartered Institute of Personnel and Development median, which could be reflective of the lack of other good job opportunities in the Blackpool area. There are some roles which remain hard to fill such as in Children's Social Care and ICT and this has led to the market value of these employees increasing, resulting in competition across local authorities to secure resource. As a result collaborative work has been undertaken across the North West to agree standard agency rates for some roles and this has proved to be reasonably successful. In addition, collaborative work with Health has resulted in the development of a recruitment microsite dedicated to professionals in Health, Social Work and Education.

It is a credit to our employees and our leadership that despite these very difficult times and constant job insecurity our employees remain dedicated to providing an excellent service to Blackpool residents.

4.6 European Union Referendum Result Outcomes

The impacts of the EU Referendum result on the UK public sector are still being researched and views from commentators are mixed with different parts of the public sector expected to be affected more than others. The previous Chancellor had already relaxed his deficit reduction plans as a consequence, though creating stimulus measures to boost the economy may have to come at a price of further squeezing of public sector budgets. The uncertainty that will prevail throughout the exit negotiations is itself a strong reason for accepting the multi-year settlement offer.

The one immediate positive for Blackpool Council is the plummeting of medium to long-term interest rates besides the further fall in short-term rates. The graph below published by *Room 151* illustrates the downturn since 1991, for which there is still no end in sight.



Whilst every opportunity to restructure existing debt to minimise interest payments is being explored, the prohibitive debt redemption premia currently being quoted by the Public Works Loan Board (PWLB) is thwarting this, but lobbying is underway to seek a review by PWLB of their debt redemption formulae. However, for new capital investment there has never been a cheaper time for local authorities to borrow to invest.

With regard to the EU Structural Funds, i.e. those funds targeted at delivering the EU's Cohesion Policy of closing the gaps in living standards and development between Member States, regions and social groups and an important resource for local area regeneration and economic development, the Government has agreed to honour and underwrite any existing commitments though new applications will be at some risk.

5. The Financial Framework

The substance of the Medium-Term Financial Sustainability Strategy is summarised in its financial framework.

5.1 Financial Projections

The table below sets out the projections of movements in the Council's Net Revenue Budgets over the 6-year period, 2016/17 – 2021/22. The financial profiles shown in the table take account of the total forecast revenues available to the Council and the expenditure necessary to fulfil its commitments and service priorities. Based on a number of key assumptions the projections shown as "Budget Gap" are the level of savings needed to be achieved each year to balance the budgets. The key assumptions include:

- in-year budgetary pressures are resolved sustainably and not carried forward
- pay award levels to rise on average by 1.0% per annum for the period, this has not been flexed to forecast staffing levels
- the payment of the National Living Wage, profiled to meet target rate by 2020/21
- the payment of annual increments
- voluntary 5 days' unpaid leave on average continuing in each year
- employer national insurance changes due to the introduction of the single-tier state pension from 2016/17
- no further increases to employer's superannuation contributions at the next pension triennial revaluations from 2017/18 and from 2020/21
- the full rollout of auto-enrolment in 2017/18
- general non-pay inflation to rise by the cost price index (CPI) as forecast in the Budget 2016 for 2017/18 and maintained at that level throughout the period of the Strategy
- growth funding to reflect reasonable demographic pressures in adults' but not children's social care
- the latest estimates of Settlement Funding Assessment and Core Spending Power
- Council Tax increases incorporated based upon Government assumptions
- interest rates to remain flat for the period of the Strategy
- the Council fulfils the statutory obligation to balance its Budget.

In summary and based upon best estimates the Council needs to plan for the programme of budget savings highlighted below. These savings are in addition to those delivered from 2011/12 to 2015/16 which totalled £93.4m.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Reduction / (Increases) in Total Resources	8.1	4.3	(2.8)	(1.1)	(1.2)	(1.0)
Pay awards, increments, NI and pensions	3.5	2.0	2.0	1.7	1.9	1.6
Non-pay inflation	5.3	3.8	4.1	4.1	4.0	1.9
Service developments and demand pressures	8.2	4.6	1.5	1.8	1.0	0.8
Budget Gap	**25.1**	**14.7**	**4.8**	**6.5**	**5.7**	**3.3**
Cumulative Budget Gap since 2011/12	**118.5**	**133.2**	**138.0**	**144.5**	**150.2**	**153.5**
Forecast Working Balances as at 31st March	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**	**6.0**
Forecast Earmarked Reserves as at 31st March	**35.1**	**31.4**	**30.8**	**30.4**	**28.3**	**27.2**

Appendix 9b details the (SIGOMA-formatted) Medium-Term Financial Plan for the 6-year period 2016/17 – 2021/22, incorporating the 'efficiency plan' period, which will now be subject to a period of consultation with residents, local neighbours, public sector partners and devolution stakeholders as required by the Secretary of State for Communities and Local Government.

5.2 Savings Programme (the 'Efficiency Plan')

Over the term of the Strategy achieving savings of the scale demanded will require concerted action and consideration of a broad range of initiatives, whilst maintaining strong financial management and budgetary control, addressing any areas of overspending in a timely manner, maximising savings and ensuring value for money.

The Savings Programme will constitute 7 thematic workstreams which will be developed and finessed over the next 4 months:

i) Technical savings – these could include debt and PFI restructurings, review of reserves and provisions, use of capital receipts and capital to revenue transfers and review of Council Tax Reduction Scheme.

ii) Income generation and management – between 2014/15 and 2015/16 fees and charges income increased by £2.8m (or 7.9%) and will continue to be optimised along with returns on business loan investments, Growth and Prosperity initiatives and traded services.

iii) Procurement and commissioning - maximising best value from the market place through an innovating commissioning regime to reduce third-party spend and deliver targeted social value.

iv) Demand management and self-help initiatives such as the current Channel Shift project work.

v) Transformational efficiency measures under the direction of the Chief Executive's Delivery Unit with a focus on 'upstream' prevention.

vi) Structural reform:
- internally with Council services being the provider of first choice
- collaborating and partnering with the Council's own companies (as has already progressed significantly with the adoption of the Companies Governance Framework)
- across the wider public sector including the local Public Sector Board, Combined Authority, Healthier Lancashire & South Cumbria and One Public Estate
- with the private and voluntary sectors.

vii) Service reductions and cuts, which will be considered once i) – vi) have been exhausted.

5.3 Risk

Risk management processes are embedded across the Council. A strategic risk register is maintained and a Corporate Risk Management Group meets quarterly to review the risks contained in the register. The risk register at **Appendix 9(c)** lists all the identified strategic financial risks over the period of this Strategy; measures are also identified as to how these risks should be managed and mitigated. The schedule at **Appendix 9(d)** assesses and evaluates each identified risk from a financial perspective and where deemed material provides an indication of the level of unearmarked reserves and balances which the Council should prudently maintain in order to address the level of risk. These risks are in addition to those covered by the contingency provision in the Council's annual Revenue Budget and by its specific earmarked reserves. It is such an approach to risk that will protect Blackpool Council from being one of the *56% of metropolitan and unitary councils that local auditors are concerned will not meet medium-term savings targets*[6].

[6] *Financial sustainability of local authorities*, National Audit Office, 19th November 2014

5.4 Working Balances and Reserves

Part 2 of the Local Government Act 2003 requires the Council's Statutory Finance Officer to report on the adequacy of the authority's financial reserves when setting the level of Council Tax for each financial year. The reserves are sums deemed necessary to be set aside to meet unexpected changes in the budget and to provide a safety net to finance events which are difficult to predict. In making such a judgement the following matters are taken into account:

- the strength of financial controls and budget monitoring procedures
- the robustness of estimates contained in the budget
- current budget projections
- past financial performance
- risks inherent in the financial strategy
- the risk management framework, policies and practices.

In addition to the Council's general working balances a number of earmarked revenue reserves are available to cover specific risks and uncertainties, e.g. Business Rate Appeals and Insurance Liability Claims. Without these reserves the Council's general working balances would need to be set at a higher level.

Taking into account earmarked reserves it is the recommendation of the Council's Statutory Finance Officer that the Council should continue to plan for a level of general working balances of £6m and that this should be subject to ongoing review. This level is necessary in view of the scale of the Council's gross revenue budget and associated risks and has been built into the MTFSS.

6. Internal Assurance and Independent Validation

6.1 This Strategy highlights the financial constraints, pressures, complexities, risks and uncertainties that the Council will face over the medium term. In order to be able to oversee and steer the organisation through this difficult time and with some robust assurance, Members need to have confidence in the systems, processes, procedures and internal controls that underpin financial management and trigger the necessary early warning system should plans go awry. Attached at **Appendix 9(e)** for Members' and officer colleagues' information is a summary of Blackpool Council's financial assurance framework.

6.2 Although this financial assurance framework is appraised from time to time by the Council's External Auditor, KPMG, and via internal audit reviews and financial controls assurance testing undertaken by its Internal Audit function, such is the prevailing financial risk environment that it would be sensible and advisable to commission a separate independent validation of this MTFSS. There are currently a number of sector-led review mechanisms on the market, but the recently-launched, LGA-endorsed Financial Resilience Advisory Report peer review service of CIPFA fits the specification. It gives an independent, informed and insightful perspective and opinion to councils on their financial resilience and advice on options to deliver a balanced budget, focusing on medium-term planning and assurance on transformation plans.

7. Conclusions

7.1 Local government is entering a further period of uncharted territory. In the face of continuing cuts it is battling to adapt and in some cases completely revolutionise the services that it provides. This Strategy lays out the principles that will underpin the Council's financial direction to 2022, by which time there does seem to be some light at the end of the tunnel. However, along that journey further services will have been cut and jobs lost, which will not go unnoticed by the residents of Blackpool, the businesses that operate here and the visitors who come to stay.

To achieve the corporate objectives of the Council every opportunity and idea must be explored. Every effort will need to be made to work with the public, partners, voluntary sector and the private sector to minimise the impact of the cuts on the people who need and depend upon our services. Seeking external funding and maximising income opportunities will also be vital.

It is an unsettling time for many people including staff, but the commitment to delivering the best possible services to Blackpool residents remains undiminished.

8. Recommendations

8.1 To approve the Medium-Term Financial Sustainability Strategy 2016/17 - 2021/22.

8.2 To share this Medium-Term Financial Sustainability Strategy with the Secretary of State for Communities and Local Government by 14 October 2016 as the Council's 'Efficiency Plan' required to secure the benefits of the greater certainty that a 4-year Revenue Support Grant Settlement brings to medium-term financial planning.

8.3 To initiate a period of consultation on the efficiency plan with residents, local neighbours, public sector partners and devolution stakeholders.

8.4 To invite independent assurance on the robustness and validity of this Strategy and Medium-Term Financial Plan via CIPFA's new Financial Resilience Advisory Report peer review service or equivalent.

8.5 To agree to receive updates of the Strategy and/or Plan on a rolling annual basis or as changing circumstances dictate.

Mr S Thompson

Director of Resources and Statutory Finance Officer

September 2016