Appendix 4a:

REPORT

of the

DIRECTOR OF RESOURCES

to the

EXECUTIVE

on

8TH NOVEMBER 2021

MEDIUM-TERM FINANCIAL SUSTAINABILITY STRATEGY 2021/22 – 2026/27

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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, 2021/22 to 2026/27, overlapping and replacing the previous one which covered the 6-year period, 2016/17 to 2021/22.

1.2 The previous 6 years began with a welcome 4-year local government funding settlement that greatly assisted medium-term financial planning, but as a consequence of European Union Exit and the subsequent uncertainties caused by the Covid-19 pandemic this was followed by successive 1-year stop gap spending rounds.

1.3 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 continued until the onset of the pandemic. Blackpool Council has been and continues to be committed to protecting vital services, but to remain financially sustainable has had to respond with recurrent savings of £165.7m (£995.6m compound) from its revenue expenditure up to the end of 2020/21. During the term of this Strategy a further £58.4m of savings is forecast to be needed.

1.4 Each successive year the scope remaining for savings from efficiency measures becomes less. Delivering savings of the above magnitude has had an unavoidable impact on service levels, resident satisfaction ratings, jobs and morale, and with 77% of the revenue budget now earmarked for social care (adults and children) more radical, fundamental, transformational and sustainable solutions will become necessary by 2027 if compensating government funding is not provided.

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 perceived to be an ongoing challenging period for local government following the shocks to the UK economy, upward demands upon services, inflationary pressures and the competing demands for resource from other central government departments.

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 necessary to contain expenditure within this envelope in order to fulfil its statutory obligation to balance its budget[1] and deliver the actions within a refreshed Council Plan;

- 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; and

- to demonstrate to its stakeholders 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 late as possible to understand the consequences of EU Exit and Covid and to incorporate any insights and implications of the Spending Review 2021 announced by the Chancellor of the Exchequer on 27th October; in addition, the views of the local government sector on such key Government policy proposals as Fair Funding, Business Rates Retention and Reset and Adult Social Care funding reform; and professional advice from the sector, in particular from the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Government Association (LGA).

b) Procedure

2.3 In the medium term of 2021/22 – 2026/27 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;

- forecasting the projected expenditure and alignment of resources across more than 250 service heads in accordance with the Council's Plan 2019 - 2024 and its commitments and priorities for local service development and delivery; and

- 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 the process, however, the formulation of the Strategy has been governed by 10 guiding principles which include 2 new ones at ix) and x):

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 local taxes and charges as low as practicable

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

v) maximising the level and resilience of the resources of cash, assets and people
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
ix) a sympathetic but robust approach to income and debt management in accordance with a refreshed Income and Debt Recovery Strategy
x) adherence to the Council's climate emergency declaration of reaching net carbon zero by 2030 (and measures to lead the town towards the same objective).

In the absence of medium-term planning guidance and settlements from central government it has been this "how" approach rather than "what" that has underpinned the Council's ongoing financial management strategy. Whilst the *numbers* will inevitably change over a medium-term horizon, it is the *narrative* that conveys the clarity of direction.

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 The Spending Review 2021 states that it *provides a multi-year settlement to enable local authorities to support the ambition to level up communities across the country, with an estimated average real-terms increase of 3% a year in core spending power … SR21 provides English councils with £1.6 billion of new grant funding in each of the next three years, on top of the funding to implement social care reform. This funding ensures the Government can reform social care, increase investment in supporting vulnerable children and enable local authorities to continue to provide the other local services that people rely on*. As at this point central government departmental funding (known as Resource Departmental Expenditure Limits (RDELs)) is 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 (excluding depreciation and ringfenced Covid funding)	2021/22 £bn	2022/23 £bn	2023/24 £bn	2024/25 £bn	2025/26 £bn	2026/27 £bn
All Resource Departmental Expenditure Limits	384.9	435.2	442.5	453.7	N/k	N/k
Local Government RDEL including Adult Social Care reform	9.1	10.8	12.1	12.7	N/k	N/k
	2.36%	*2.48%*	*2.73%*	*2.80%*	*N/k*	*N/k*

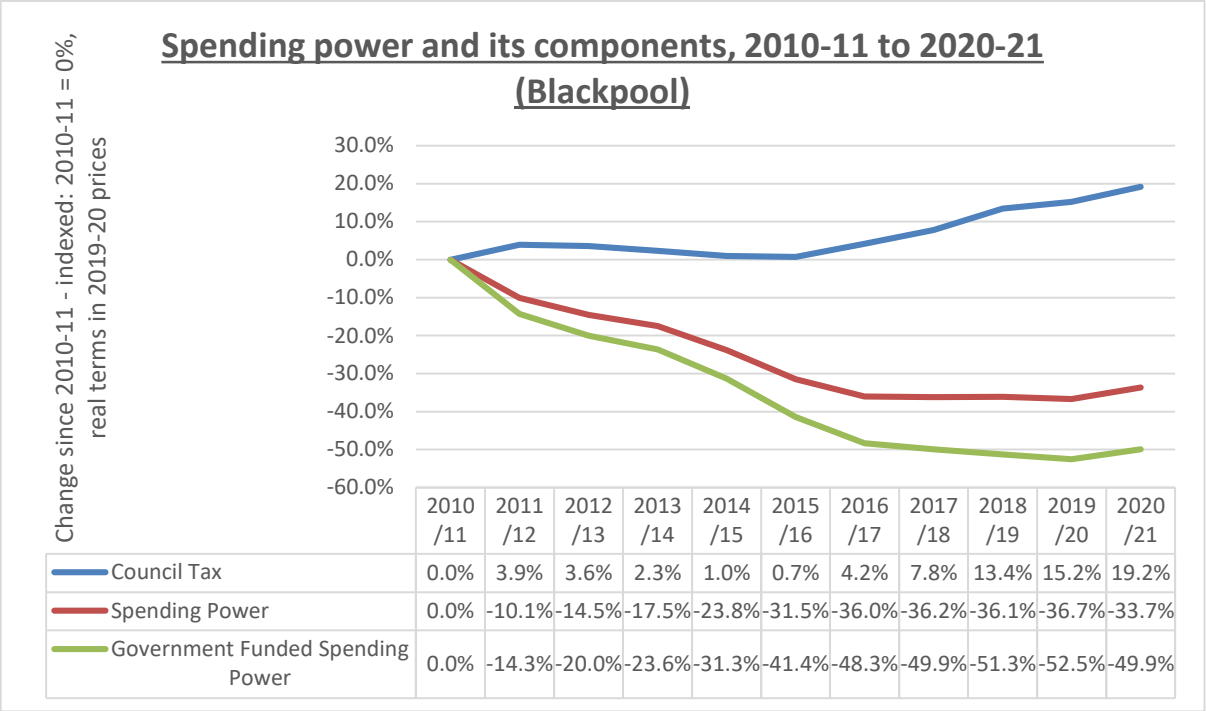
3.2 In "early" December 2021 the 3-year Provisional Local Government Finance Settlement will be announced and a refresh of the next 2 tables will be captured within the Council's Revenue Budget 2022/23 report:

Local Government	2021/22 £bn	2022/23 £bn	2023/24 £bn	2024/25 £bn	2025/26 £bn	2026/27 £bn
SFA – Revenue Support Grant	2.3	N/k	N/k	N/k	N/k	N/k
SFA – Business Rates	12.6	N/k	N/k	N/k	N/k	N/k
Compensation re. Business Rates Multiplier	0.6	N/k	N/k	N/k	N/k	N/k
Council Tax Requirement	30.6	N/k	N/k	N/k	N/k	N/k
Improved Better Care Fund	2.1	N/k	N/k	N/k	N/k	N/k
New Homes Bonus	0.9	N/k	N/k	N/k	N/k	N/k
Social Care Grant	1.7	N/k	N/k	N/k	N/k	N/k
Rural Services Delivery Grant	0.1	N/k	N/k	N/k	N/k	N/k
Other	(0.5)	N/k	N/k	N/k	N/k	N/k
Core Spending Power[2]	**50.4**	**53.7**	**56.6**	**58.9**	**N/k**	**N/k**

This reinforces the assertion of the Department for Levelling Up, Housing and Communities (DLUHC)

[2] *The figure for Core Spending Power is an estimate and subject to data changes. Final figures will be published as part of the 2022-23 Local Government Finance Settlement. [Spending Review 2021]*

that by 2020/21 Local Government's Core Spending Power had returned to the level that it was in 2015/16. However, this ignores individual local authority allocations, inflation and demand factors such as population growth and demographic pressures and the substitution of central government funding reductions in the main with assumed council tax increases and council tax growth, which can be clearly seen in the following graph showing Blackpool Council's Government-funded versus council tax-funded Spending Power components over the last decade:



	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Council Tax	0.0%	3.9%	3.6%	2.3%	1.0%	0.7%	4.2%	7.8%	13.4%	15.2%	19.2%
Spending Power	0.0%	-10.1%	-14.5%	-17.5%	-23.8%	-31.5%	-36.0%	-36.2%	-36.1%	-36.7%	-33.7%
Government Funded Spending Power	0.0%	-14.3%	-20.0%	-23.6%	-31.3%	-41.4%	-48.3%	-49.9%	-51.3%	-52.5%	-49.9%

3.3 The equivalent shares for Blackpool Council are listed below:

Blackpool Council	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
SFA – Revenue Support Grant	15.1	N/k	N/k	N/k	N/k	N/k
SFA – Business Rates	48.3	N/k	N/k	N/k	N/k	N/k
Compensation re. Business Rates Multiplier	2.5	N/k	N/k	N/k	N/k	N/k
Council Tax Requirement	63.9	N/k	N/k	N/k	N/k	N/k
Improved Better Care Fund	10.6	N/k	N/k	N/k	N/k	N/k
New Homes Bonus	-	N/k	N/k	N/k	N/k	N/k
Social Care Grant	8.0	N/k	N/k	N/k	N/k	N/k
Rural Services Delivery Grant	-	N/k	N/k	N/k	N/k	N/k
Other	0.3	N/k	N/k	N/k	N/k	N/k
Core Spending Power	**148.7**	**N/k**	**N/k**	**N/k**	**N/k**	**N/k**

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 and withstand short-term distractions and pressures. 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.

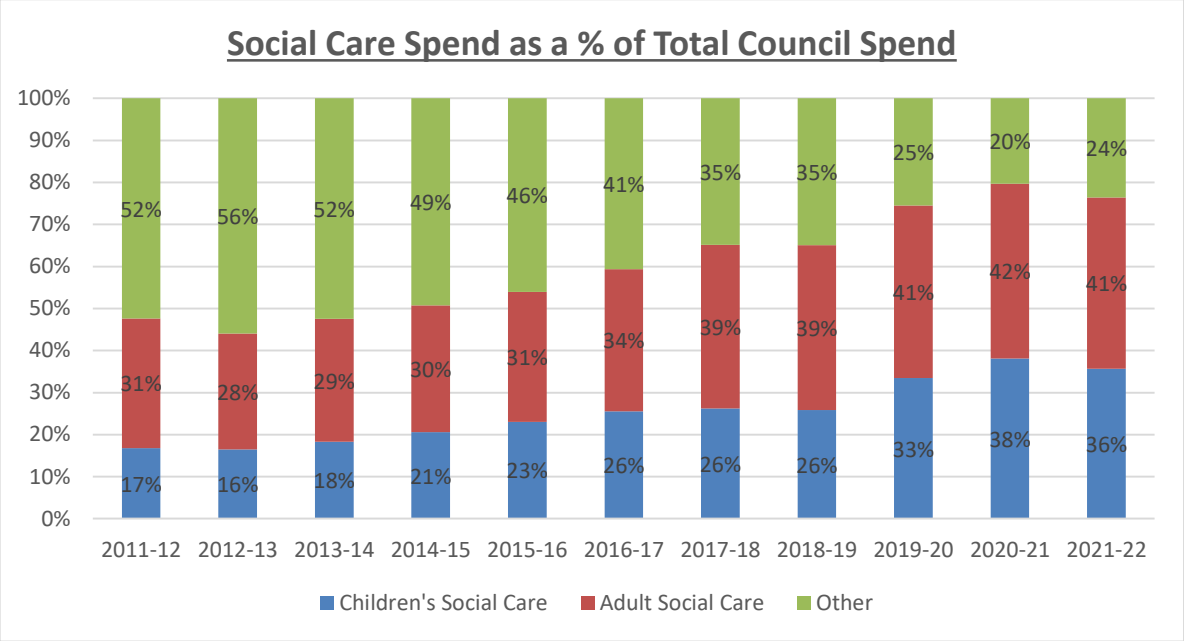
3.6 Local Demand for Services

The national Index of Multiple Deprivation last published in 2019 ranked Blackpool as the most deprived local authority in England according to the 'rank of average scores' measure as it was in 2015. This is a worsening trend with a higher rank than both the 2010 (6th most deprived) and 2007 (12th most deprived) releases. The 2019 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 The current census took place in 2021 with initial findings due in March 2022, but Office for National Statistics trend-based population projections in 2020 showed that Blackpool is the only local authority area in the country to have experienced a decline in its estimated population year-on-year since 2010, falling from 142,753 to 138,381 including a drop of 1,065 people (0.75%) in the previous 12 months. 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 materially 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. A decade ago 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. This has indeed panned out as the graph overleaf of social care versus other Council spend indicates:



Despite subsequent Government policy changes primarily targeted at adult social care funding via specific grant and the social care precept, there still exist serious concerns about the viability of local government to deliver even its statutory functions as evidenced most recently by 3 local authorities issuing s114 notices, in effect declarations of bankruptcy; 8 in receipt of Government capitalisation directives and/or emergency bailouts; and 5 in receipt of emergency Special Educational Needs and Disability (SEND) bailouts. This predicament is further reinforced by 2 relevant reports from earlier this year – the House of Commons Public Accounts Committee: *Local government finance* of June 2021 and the National Audit Office's *Local government finance in the pandemic* of March 2021.

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 2022/23 will be announced in early December 2021 and is expected to include a front-loaded cash increase of potentially some 16.5% to Revenue Support Grant (RSG) and some other specific grants but net of additional ringfenced Adult Social Care funding, with a 2-year rollover thereafter. Whilst such an increase is welcome, it will only apply to a level of RSG that is now just £15.1m. It does herald a departure from the Government's previous intent to transition towards the self-funding of local government and it must be acknowledged that there still remain other significant competing demands upon the public finances from Health and Education in particular. The re-introduction of some certainty to the Settlement process that a 3-year Settlement brings is also very welcomed for financial planning purposes.

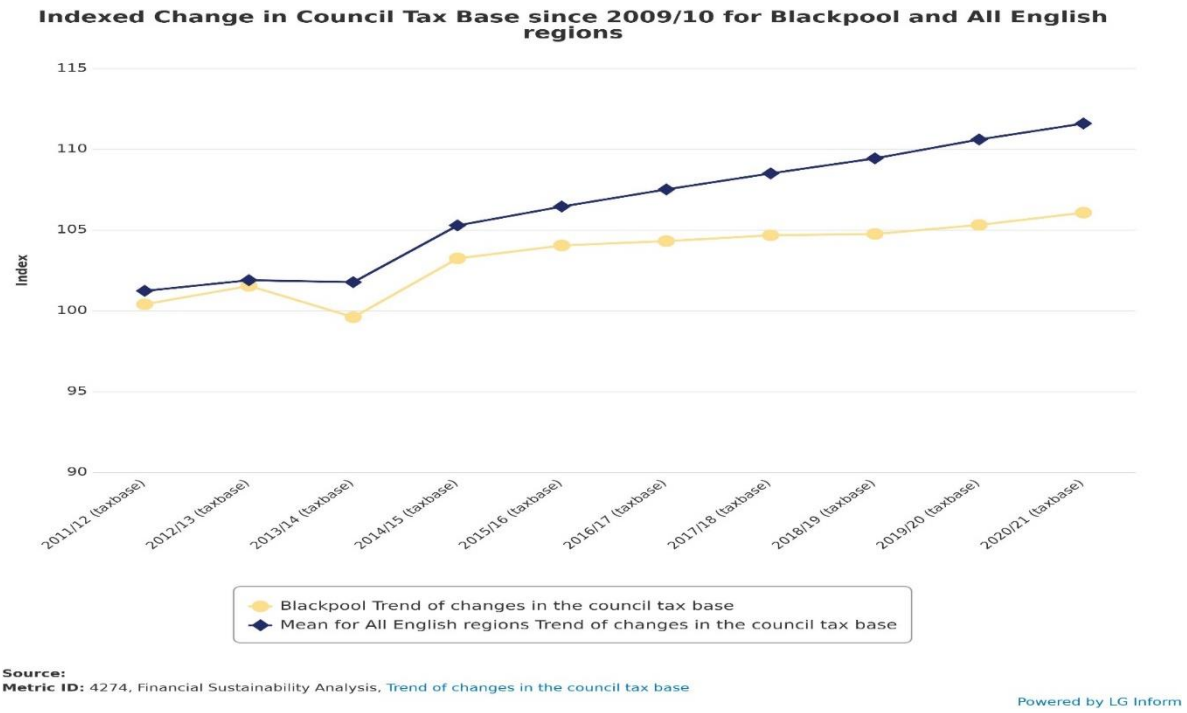
Besides the Settlement Funding Assessment, back in September the Government announced *Building Back Better: Our Plan for Health and Social Care*, a package of funding of £36bn that will become available over the next 3 years to reform adult social care, to cut NHS waiting times and to tackle Covid backlogs. From April 2022 the Government will introduce a new, UK-wide 1.25% Health and Social Care Levy that is ringfenced for health and social care. This will be based on National Insurance Contributions and from 2023 will be legislatively separate. To ensure everyone contributes fairly all employers and working adults including those over the state pension age will pay the Levy and the rates of dividend tax will also increase by 1.25% to help fund the package. However, local

government's share of this £36bn is estimated at £5.4bn and according to the Institute for Fiscal Studies will cover only around a third of the estimated cost of the planned measures such as the lifetime cap on care costs and revised means-testing arrangements.

A technical consultation on the future of the *New Homes Bonus* from 2022/23 onwards concluded in April 2021 but DLUHC's response is still awaited. New Homes Bonus (NHB) is an incentive grant paid by central government to local councils over a rolling 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 DLUHC-funded element has had to be deducted from the general local government funding pot (ie. originally from 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 allocation for 2021/22 was only £45k. In the absence of a formal response to the consultation by DLUHC it has been prudently assumed that the proposed increase to the baseline for housing growth from 0.4% to 0.6% will be actioned, resulting in a NHB in 2022/23 of just £8k.

4.2 Council Tax

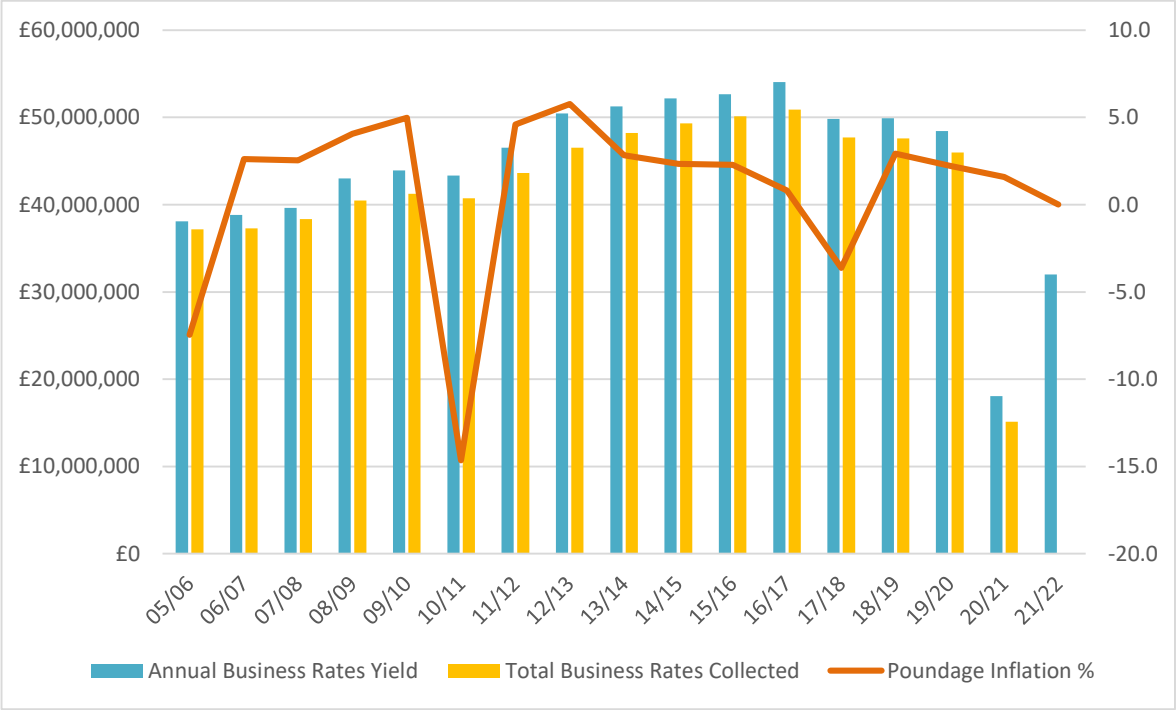
For a number of years over the last decade council tax was frozen in accordance with Government policy. However, the pressure of Government funding constraints has more recently necessitated an increase as the ability to deliver savings whilst maintaining effective service levels has become untenable. Council tax and the adult social care precept have been uplifted annually in accordance with Government-imposed caps and these uplifts are incorporated within the Government's assumptions for all councils' Core Spending Power. 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. Blackpool's council tax level for a band D property in 2021/22 stands at £1,699.13 with an average payable of £892, which is still the lowest in Lancashire. The yield from council tax is a product of the tax per banded property and the number of properties per band or taxbase. Although the taxbase has grown in Blackpool over the last 10 years, it has fallen behind the UK average mainly as a result of the relative lack of land for housing development compared with other authorities.



4.3 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 CPI 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 5 years Blackpool has paid out over £13m in successful backdated business rate appeals of which it has been responsible for meeting 49% (and 73.5% in 2019/20 when a participant in the Lancashire business rates pool).

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. 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. Added to this the challenges to the high street and the dramatic shift to digital retail and homeworking and as a local government funding mechanism this system no longer feels fit-for-purpose. This is illustrated by the following graph which shows the variations of annual business rates collected in Blackpool from 2005/06 to 2020/21. It is therefore not surprising that the Government has postponed its review of Business Rates Retention policy besides the 2021 revaluation and accompanying reset to 2023.

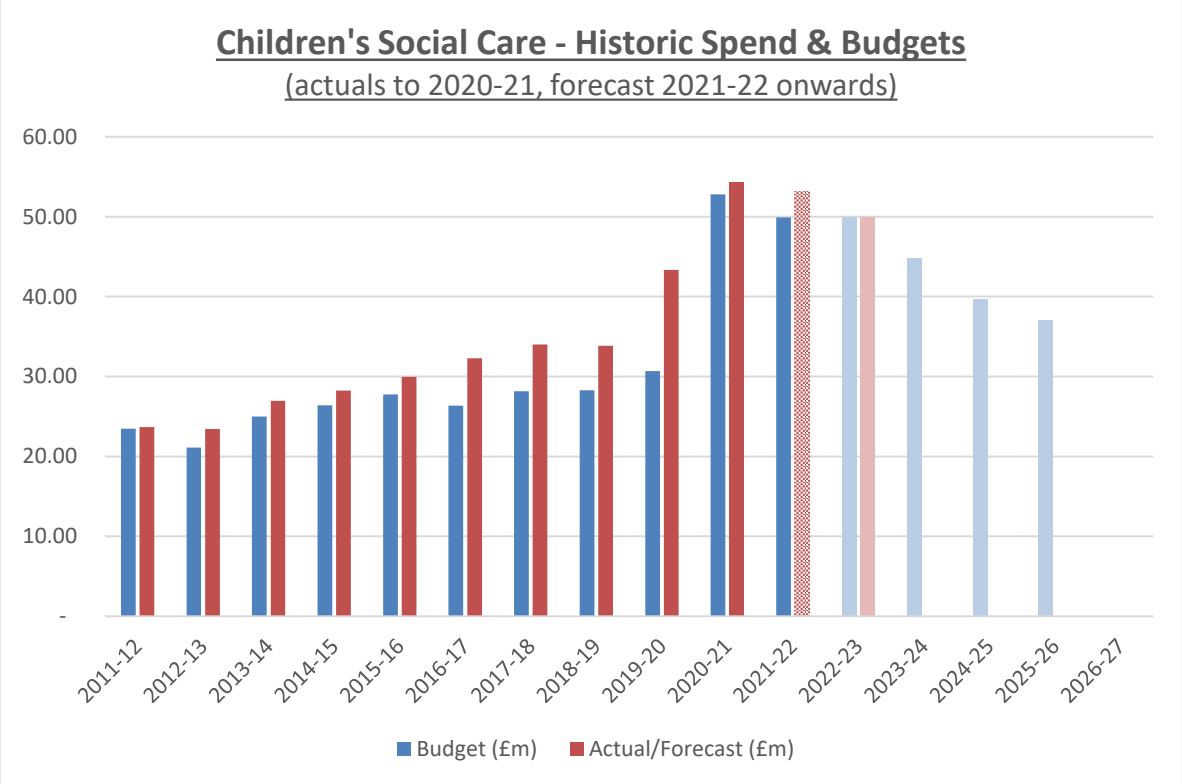


Owing to increases in the total rateable value at Revaluation in 2010/11 and 2017/18, the rate in the pound was reduced in order to have a neutral effect nationally. The outcome of a recently-completed consultation on proposals to undertake valuations on a more frequent 3-yearly basis to mitigate such volatilities in the system is still awaited.

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[3], and in Growth and Prosperity.

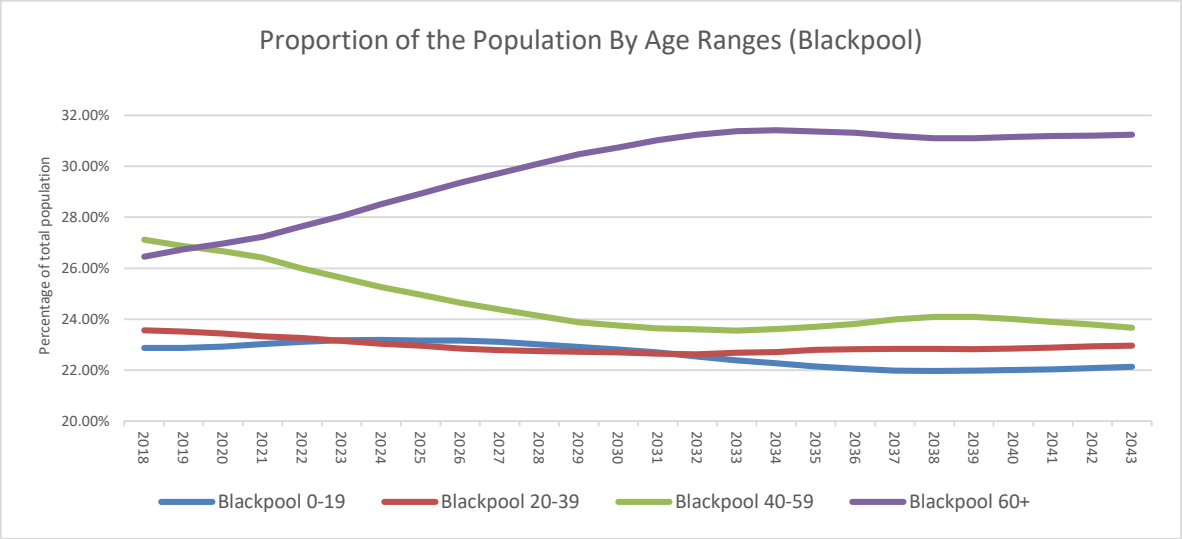
Following the full Ofsted inspection of Children's Social Care in 2018 and their report of January 2019, the Council drew up an improvement plan which was resourced at an additional annual cost of £22.4m. A subsequent medium-term financial strategy solely for Children's Social Care was formulated and approved in July 2020 which sought to wean off the outlier dependency upon the service over a 5-year period. Although there are green shoots that demand is plateauing and looked after children numbers are back to what they were 2 years ago, the complexity of recent cases together with some market exploitation (into which the Competition and Markets Authority launched a market study last March) has led to a 25%+ increase in unit costs over that same period. As a result it is recommended to defer delivery of the 5-year Children's Social Care medium-term financial plan by 12 months in order to give the 5 component workstreams aimed at reducing numbers entering care, expediting children leaving care and stepping down children and young people in care from the more expensive types of provision more time in which to take effect. The consequential budget re-profile would then look like:



Adult Social Care has been impacted by Covid and its consequences more so than any other service in the Council. Maintaining the sustainability of market provision has been challenging with providers experiencing staffing recruitment and retention difficulties besides having to find cover for staff falling ill with the virus themselves or self-isolating; the costs of making arrangements Covid-secure for safe and effective care and for visitors; the costs of personal protective equipment (PPE); and the loss of income from clients who have sadly passed. This is now being compounded by a NHS requirement for quicker discharge to assess pathways from hospitals into the care sector. Placement costs are expected to be approximately £46m in 2021/22 for about 2,900 service users with hours commissioned for care at home seeing a 15%+ increase compared with 2 years ago pre-Covid. As the

[3] Unitary Treasurers Group, Society of Municipal Treasurers, Lancashire Chief Financial Officers and Greater Manchester Association of Metropolitan Treasurers

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.

Since 2017 the Council has been making assumptions on yields and receipts from its Growth and Prosperity work programme in order to bridge its annual budget gaps. It is now clear from experience that the pace and delivery of this programme is significantly and adversely impacted not just by the consequences of Covid in relation to private sector risk-taking, central government decision-making, office and retail rental levels, sourcing of building labour and materials and project costs, but also the vagaries of the planning permission, objection and appeal processes. In this context it is deemed prudent to remove this volatility and uncertainty from the revenue budget process and transition out the Growth and Prosperity net revenue budget target over a 2-year period, 2022/23-23/24, with any proceeds subsequently realised from the existing work programme being directed to bolstering reserves and any new proceeds being retained by Growth and Prosperity for their re-investment.

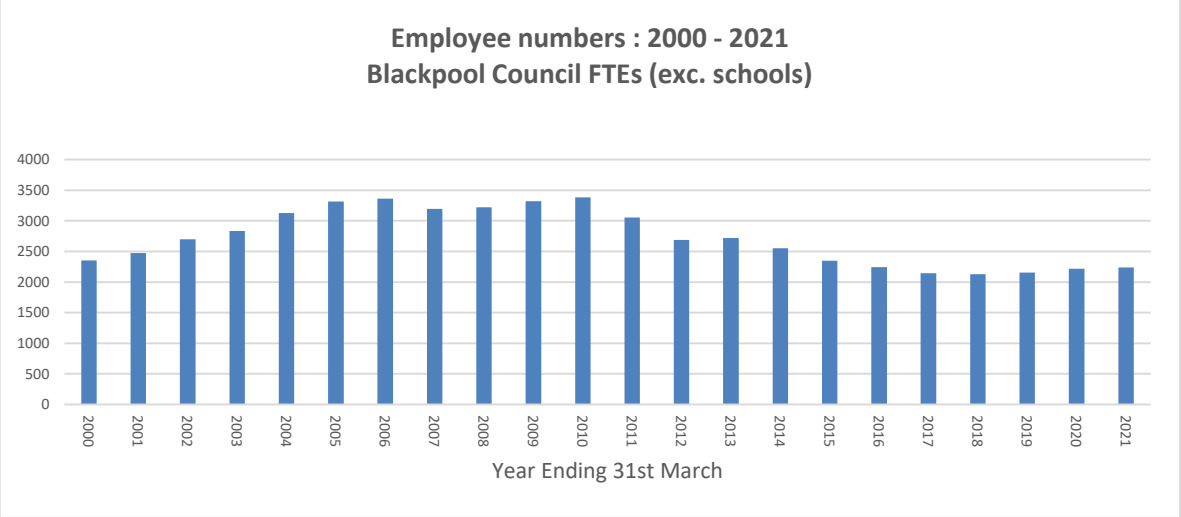
Besides the aforementioned social and demographic issues, welfare reforms and the general effects of the economic climate do influence residents' and indeed visitors' personal levels of spending on some of the Council services and their ability to pay on others. Both can impact adversely on levels of locally-generated income. Therefore, in parallel to this Strategy a refresh of the Council's Income and Debt Recovery Strategy, its Fair Debt Policy and its Financial Inclusion Strategy will all be undertaken.

4.5 <u>Staffing and Workforce Planning</u>

Since the Comprehensive Spending Review of 2010 up to the end of the last financial year the Council has seen a reduction of £165.7m in its budget and as a result the staffing levels have fallen from 3,411 full-time equivalents (FTEs) to a plateauing of c.2,200. These reductions have been as a result of compulsory and voluntary redundancies, retirements and natural turnover with vacant posts then being disestablished. The graph overleaf illustrates that despite having established new services such as Public Health, Children's Centres and Growth and Prosperity since the start of the millennium, staffing levels now are in fact less than they were 2 decades ago.

Further reductions in employee numbers can be expected in 2022/23 and beyond as a result of the continuing budgetary pressures. 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 £400k, last year's restructuring of the Minimum Revenue Provision has enabled funds to be released to top this up. 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 2021/22 is still to be settled with trade union members having rejected the local government employer's latest offer of 1.75%. This is a budgetary pressure in 2021/22 which will continue into 2022/23. The Council already pays the Foundation Living Wage to its employees and therefore the announced increases to the National Living Wage do not impact on costs for Council employees, however, it will inevitably have a significant impact on commissioned services.

The introduction of Pensions Auto Enrolment and the ending of the Transitional Delay Period in 2017 resulted in any eligible employee who is not in the pension scheme being enrolled, but this has not lead to a significant increase in employer's pension costs due to opt outs.

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 into future years and it is hoped that staff's co-operation will continue.

Staff turnover (excluding redundancies) is c.10% and varies across different directorates with Children's Services being the highest at c.15%. There are some roles which remain hard to fill such as qualified social workers in Children's Social Care, care roles in Adults Social Care and other professional roles within ICT and Planning. This is indicative of the current recruitment market across local authorities and collaborative work with neighbouring local authorities is underway to seek to attract workers to the North West of England.

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.

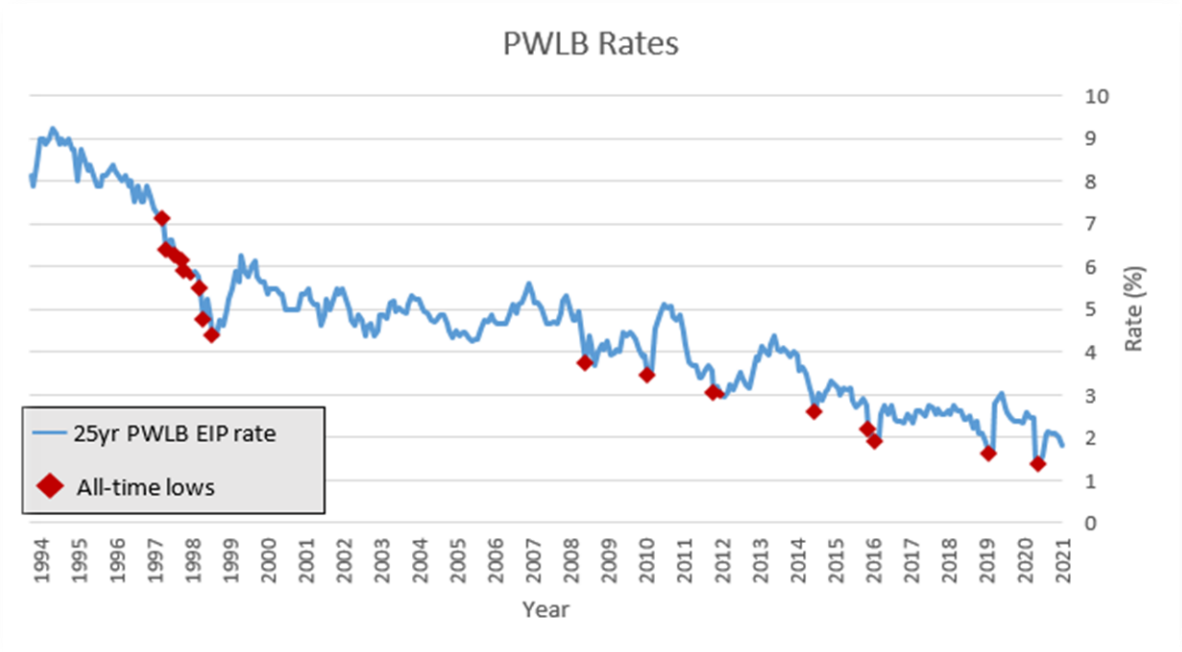
4.6 <u>European Union Exit and Covid Consequences</u>

The impacts of EU Exit and Covid 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

adversely than others. The Chancellor has 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 some public sector budgets.

Supply chain bottlenecks are already being seen with global shipping problems, tight supplies of steel, wood, semiconductors, fuel, energy and other vital inputs besides across-the-board staff shortages. Inflationary pressures are emerging as a result.

The one positive for Blackpool Council has been the continued 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 1994. This cannot continue, particularly if inflationary pressures significantly exceed Bank of England targets. Whilst the Council's Treasury Management Strategy is to continue to borrow short-term until an uptick in interest rates becomes obvious, the treasury management budget assumes sufficient headroom to allow for locking in at the appropriate time.



Whilst every opportunity to restructure existing debt to minimise interest payments is being explored, the prohibitive debt redemption premiums 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, ie. 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 UK Government has agreed to honour and underwrite any existing commitments. The Government plans to replace EU Structural Funds with a new £2.6bn UK Shared Prosperity Fund due to launch in April 2022, targeting "places most in need" for investment in infrastructure and local business and delivering employment and skills programmes.

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, 2021/22 – 2026/27. 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 the Cost Price Index (CPI) as forecast by the Office for Budget Responsibility (OBR) in the Spending Review 2021, ie. 2022/23 3.7%, 2023/24 2.3%, 2024/25 2.0% and 2025/26 2.0% - this has not been flexed to forecast staffing levels
- the payment to commissioned services of the National Living Wage, profiled to meet a target rate of £11.00 per hour by 2026/27
- the payment of annual increments
- voluntary 5 days' unpaid leave on average continuing in each year
- employer national insurance changes
- no further increases to employer's superannuation contributions at the next pension triennial revaluations from 2023/24 and from 2026/27
- the full rollout of auto-enrolment
- general non-pay inflation to rise by CPI as forecast by the OBR in the Spending Review 2021
- growth in the adult social care budget to reflect reasonable demographic pressures, but the budget capped at the level of specific grant, precept and NHS contributions
- In view of the slowdown in financial performance of children's social care in 2021/22, their MTFP budget reductions to be deferred by 1 year
- the Growth and Prosperity budget target to be rightsized over the 2-year period 2022/23-23/24
- the latest estimates of Settlement Funding Assessment and Core Spending Power with rollover Revenue Support Grant planned for the post-Spending Review period
- council tax and precept increases incorporated based upon Government assumptions of 2.0% and 1.0% respectively
- only statutory fees and charges uplifted and in line with CPI, discretionary ones to be reviewed each year as part of departmental budget savings plans
- long-term interest rates to remain relatively 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 2020/21 which totalled £165.7m. In view of the significant uncertainties this medium-term financial plan can only be considered as a Budget for year 1, a financial plan for years 2-4 and an exemplification for years 5-6:

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Reduction / (Increases) in funding / income	(1.5)	(5.8)	1.0	(2.2)	(2.2)	(2.2)
Pay awards, increments, NI and pensions	2.4	6.2	3.2	3.0	3.0	3.1
Non-pay inflation	1.1	2.8	2.8	2.5	2.6	2.7
Service pressures	7.9	3.0	(4.4)	(4.4)	(1.9)	0.2
Demand and demographic pressures	8.0	1.2	8.6	5.2	1.4	2.0
Prior year non-recurrent savings	2.4	6.6	0.1	0.0	0.0	0.0
Budget Gap	**20.3**	**14.0**	**11.3**	**4.1**	**2.9**	**5.8**
Cumulative Budget Gap since 2011/12	**186.0**	**200.0**	**211.3**	**215.4**	**218.3**	**224.1**

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	**42.9**	**36.6**	**33.1**	**31.7**	**31.2**	**30.9**

Appendix 1 details the (SIGOMA-formatted) Medium-Term Financial Plan for the 6-year period 2021/22 – 2026/27.

5.2 Savings Programme

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 3 months:

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

ii) Income generation and management – fees and charges income will continue to be optimised along with returns on business loan support, regeneration 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 which has accelerated during the pandemic period.

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 and a common Management Services Agreement
- across the wider public sector including the Integrated Care System and Partnership, the Local Resilience Forum 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 half-yearly to review the risks contained in the register. The risk register at **Appendix 2a** 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 2b** 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.

Whilst such a level of financial risk and volatility prevails, it is the recommendation of the Statutory Finance Officer that the Cash Limited Budgeting Regime, whereby service budget underspendings

and overspendings are rolled forward and ringfenced to those respective services each year-end, is suspended in order that finances can be managed more strategically at a corporate level.

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, eg. 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. In parallel with the Spending Review announcement DLUHC is currently undertaking a welcome review of local authority earmarked reserves with a view to enhancing transparency of reporting by categorising into:

- earmarked reserves - contractual commitments
- earmarked reserves - unspent government grants
- earmarked reserves - planned future revenue spending
- earmarked reserves - planned future capital spending
- earmarked reserves - specific risks
- earmarked reserves - budget stabilisation
- earmarked reserves - other.

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 3** 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 annually by the Council's External Auditor 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 last MTFSS was successfully

reviewed by the LGA-endorsed Financial Resilience Advisory Report peer review service of CIPFA which gave an independent, informed and insightful perspective and opinion on financial resilience and advice on options to deliver a balanced budget, focusing on medium-term planning and assurance on transformation plans. It is recommended that this assurance route be re-explored.

7. Conclusions

7.1 Local government continues a further period of uncharted territory. In the face of mounting inflationary and demand pressures 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 2027, over which time it will have to reconcile increasing pressures upon its services with resources that are not increasing commensurately. Along this journey further services will have to be reprioritised and inevitably some 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 ongoing 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 The Executive is asked to:

i) approve the Medium-Term Financial Sustainability Strategy 2021/22 – 2026/27;

ii) initiate a period of consultation with key stakeholders before the 2022/23 Budget cycle commences;

iii) defer delivery of the 5-year Children's Social Care medium-term financial plan by 12 months in order to give its workstreams more time in which to take effect [section 4.4]

iv) transition out the Growth and Prosperity net revenue budget target over a 2-year period, 2022/23-23/24, with any proceeds subsequently realised from the existing work programme being directed to bolstering reserves and any new proceeds being retained by Growth and Prosperity for their re-investment [section 4.4]

v) suspend the Cash Limited Budgeting Regime to allow finances to be managed more strategically at a corporate level [paragraph 5.3]

vi) continue to plan for a level of general working balances of £6m and that this should be subject to ongoing review [paragraph 5.4]

vii) invite independent assurance on the robustness and validity of this Strategy and Medium-Term Financial Plan via CIPFA's Financial Resilience Advisory Report peer review service or equivalent [paragraph 6.2]; and

viii) 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

29th October 2021