REPORT TO :	**CABINET**
DATE :	**9th February 2022**
REPORT OF :	**Councillor Joyce Plummer** **Portfolio Holder Resources**
PREPARED BY :	**Joe McIntyre** **Deputy Chief Executive**

MEDIUM TERM FINANCIAL STRATEGY

2022/23 TO 2024/25

February 2022 Update

1. Purpose of Report

The report informs the Cabinet of the 3-year projections of income and spending for the Council ahead of formulating its 2022/23 Revenue and Capital Budgets.

2. Recommendations

The Cabinet approves the report and the accompanying Medium Term Financial Strategy (MTFS).

3. Summary

The Medium Term Financial Strategy is attached to this report.

4. Detail

See the attached report on the Medium Term Financial Strategy.

5. Reasons for Recommendations

The Cabinet requires an update on its medium term financial outlook ahead of setting the Budget for 2022/23 and determining the level of Council Tax for the new financial year. This report also ensures those decisions are taken with a view to the overall position of the Council going forward and are not limited to a narrow one-year perspective.

6. Alternative Options considered & Reasons for Rejection

Not applicable

7. Implications

Issue	Comments
Financial (inc mainstreaming)	As outlined in the report
Legal (including Human Rights Act requirements)	Not applicable
Assessment of Risk	The Report contributes to the effective risk management of the Council by contributing to the overall financial context in which the Council takes budgetary and other operational decisions. The MTFS is revised on a regular basis to ensure it remains current and that changes in the financial outlook of the Council over the Medium Term are communicated to Members and appropriate action taken.
Equality : Customer First Analysis	Not applicable as this report is for information only.
Key Decision	No

8. Consultations

Service Managers and their key staff are consulted during the early work on the compilation of the MTFS. CMT and Senior Councillors are regularly engaged in formulating forward views and policy objectives and these are taken into consideration when formulating the MTFS.

9. Links to Corporate Priorities

Priority	Comments
Corp Governance and Community Leadership	The Medium Term Financial Strategy covers all aspects of these objectives.
Community Safety	
Housing and the Environment	
Economy and Employment	
Culture and Leisure	
Other priorities with partners: Health and Social Care Education and Lifelong Learning	

10. Local Government (Access to Information) Act 1985: List of Background Papers

Hyndburn BC Medium Term Financial Strategy 2021/22 to 2023/24 Cabinet 10th February 2021 Agenda Item 8

11. Freedom of Information

The report does not contain any exempt information under the Local Government Act 1972; Schedule 12a and all information can be disclosed under the Freedom of Information Act 2000.

12. Equality Impact Assessment

There are no specific measures within the report that require an Equality Impact Assessment. Individual proposals stemming from the budgetary process will be Equality Impact Assessed as required over the coming months.

HYNDBURN BOROUGH COUNCIL

MEDIUM TERM

FINANCIAL STRATEGY

February 2022

Summary

1. The Council's activities and finances have been dominated this year by the continuing impact of COVID 19 and it is expected that COVID 19 and its consequences will continue to have a major impact on the Council's finances for at least the next financial year as a minimum, with the potential for the effects to continue much longer.

2. In response to the great uncertainty the Council faces we will operate a roll forward Budget for 2022/23 based on the 2021/22 Budget adjusted for changes to salary and wages, pension contributions and increased income from the Government and our tax base. This provides Service Managers a fixed reference point from which to continue to respond to the crisis and allows a degree of stability for one further year, while we recover from the most significant challenge we have ever faced. To achieve a balanced Budget during the year the Council will need to generate £294,000 of internal savings during the year. As with previous years, the Government is encouraging Councils to increase Council Tax by up to a maximum of 2%. It is proposed that the Council follow this direction. Overall expenditure will need to be contained at below £12m in 2022/23 to set a balanced budget.

3. The Council will face significant financial challenges over the next two years as it overcomes the consequence of COVID 19 and addressing the impact of any proposed Government funding reforms and increased pressures on its spending. As the extent of the Government financial reforms are unclear at this time and are unlikely to emerge until December 2022, this produces great uncertainty and potentially significant variance around the forecasts contained in the MTFS.

4. Previously, for the last four years the expectation has been that the Government would implement what it termed as a "Fair Funding

Review of Local Government Finance" and this would effectively end the Revenue Support Grant to the Council and potentially redistribute the amount of Business Rates the Council is allowed to retain. The expected impact of these changes if they go ahead are expected to cause a significant decrease in the funding available to the Council and require it to make substantial reductions in its expenditure levels as a consequence, either immediately in the aftermath of the announcement or over a short period, if some form of transitional arrangements accompanied these changes to assist those Councils most dramatically impacted.

5. After 4 years in which these reforms have been postponed for various reasons and in the light of the Government signalling a potential change in its view of public spending commitments during the pandemic, the certainty around the introduction of Fair Funding is no longer as sure as it once seemed, with the potential that current levels of funding to the Council will continue.

6. As a consequence, the modelling now recognises that there is a real possibility that a largely continuation Budget may be the single most likely outcome over the next few years of all the potential different scenarios that could occur. However, the strong prospect of a Fair Funding Review which significantly reduces the Council's funding remains a very real prospect. MLUHC officials continue to indicate they wish to introduce some kind of Fair Funding Review during 2022 to re-shape Council finances and the prospectus of this occurring remain high.

7. This presents the Council with two very different future budget scenarios. The first is a scenario in which funding from Government remains largely in its current shape and where the Council while under some financial pressure, should be able to largely cope. While the second scenario, sees reform of local government finance, with a wide range of possible outcomes for the Council potentially occurring, from changes

that are relatively small in consequence, all the way through a whole series of results up to outcomes which would be large and very dramatic in terms of the challenges it presented to the Council.

8. These 2 scenarios are modelled within the report. The more severe of the two, as the Pessimistic Scenario and the other as the Standard Model. A third model is also presented which indicates the Council's potential position if the Government chose to provide local government with an injection of cash over and above current levels and locally the Council was able to boost its own tax revenue as a consequence of a buoyant tax base. This Optimistic model is considered to have a much lower probability of occurring compared to the other two models but is provided to illustrate the wide range of potential outcomes.

9. In these circumstances it is prudent for the Council to look to increase its reserves and revenue streams such as Council Tax and Business Rates whenever it can and to avoid committing to any new revenue expenditure while continuing to concentrate on its work to reduce internal costs.

INTRODUCTION

10. This document sets out, for the next three years,

- the way in which the Council goes about its financial planning processes, especially in relation to the corporate budget planning cycle, which is subject to the Budget and Policy Framework Procedure Rules,

- an updated action plan for the process and arrangements for reporting on progress to date in formulating and updating future years' budgets. Specifically, this report updates the Medium Term Financial Strategy presented to Cabinet in February 2021.[1]

OBJECTIVES

11. The objectives of the Medium Term Financial Strategy are:

- to be the financial expression of the Corporate Plan; it is a financial strategy's role to provide the resources to deliver this plan, and in turn, the Corporate Plan and service plans need to be consistent with the Financial Plan,

- to ensure that commitments do not exceed forecasted anticipated resources over the period and for each year,

- that expenditure is increasingly focused on those areas which the Council has determined are its priority areas,

[1] The usual Medium Term Financial Strategy update that takes place in the Autumn of each year was not undertaken in 2021 due to resources being diverted to deal with the impact of COVID 19.

- that the level of Council Tax is planned in line with what the Council and the community as a whole regard as being acceptable, albeit within the context of guidelines from Central Government,

- to review the effectiveness of delivery of additional resources into priority areas, to ensure that the objectives set for these target areas are actually being achieved,

- to ensure that the Council remains in a strong financial position as measured by the size of balances and reserves (consistent with the Chief Financial Officer's recommendations),

- to improve value for money assessments in all services by delivering increased efficiency savings,

- to provide an early signpost for the potential levels and timings required for savings

All of which must ensure compliance with the Council's Budget and Policy Framework Procedure Rules.

ELEMENTS OF THE MEDIUM TERM FINANCIAL STRATEGY

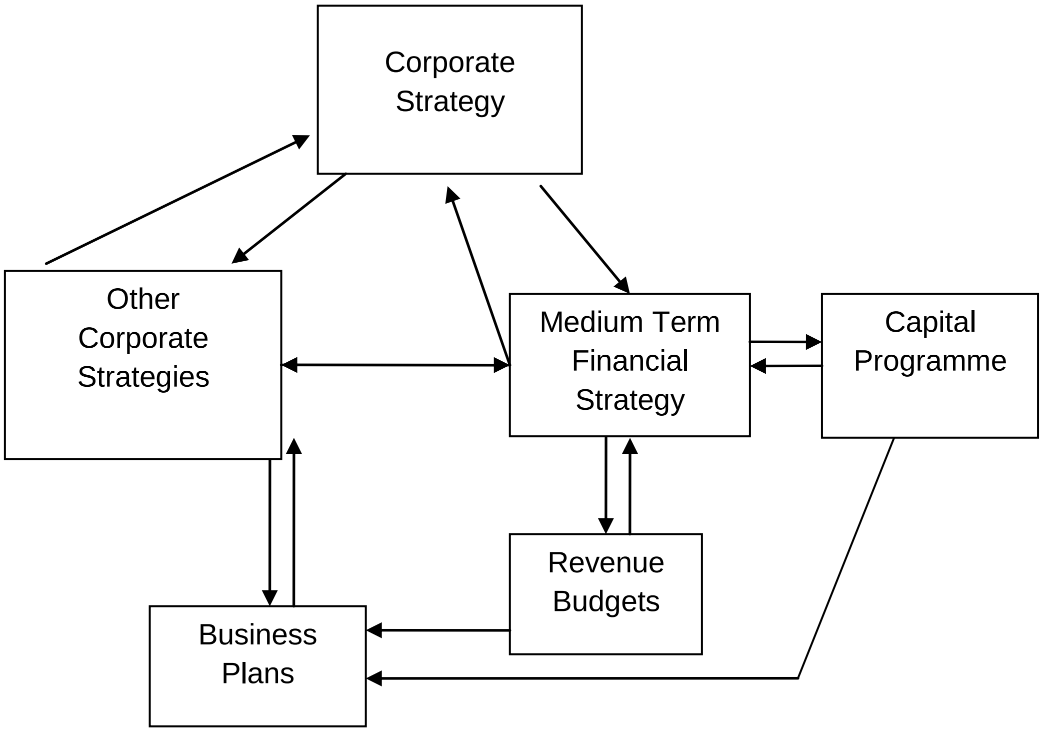
12. The key elements of the Medium Term Financial Strategy (MTFS) are:-

Forecasting Resources	The Medium Term Financial Strategy needs to be underpinned by sound forecasting mechanisms for the likely resources available to the Authority over a three year period. The Cabinet receives reports on the achievement of the financial plan with future projections for the following three years at regular intervals.
Budget Monitoring & Forecasting Commitments	Budget monitoring reports and forecast commitments are reported to Cabinet and are developed as the year progresses. As are ways of balancing resources with any new commitment if they occur outside the original financial plan.

Corporate strategic direction & priorities of the Council	In the context of the Medium Term Financial Strategy (MTFS) the Council has a clear hierarchy of strategy documents (see chart below) headed by the Corporate Strategy which sets out the vision and high level priorities for the Council. The Corporate Strategy drives the MTFS with details of committed events and their budget implications. These commitments are reflected in accordance with the Budget and Policy Framework Rules and consequently in Services' Business Plans. This hierarchy of plans gives clear direction on the Council's priorities and actions.

It is for the Cabinet, subject to an overall decision by the Council, to recommend precisely which areas are their priorities to receive additional investment and which will receive less in the light of such priorities. This process reaches its natural conclusion in the Annual Budget Report.

13.	Strategy Hierarchy:-



Service planning to support overall strategy

14.	The Corporate Strategy, together with Service Business Plans, provides a service planning structure that translates the priorities and aims of the overall strategy into measurable actions at the point of service delivery.

15.	The Medium Term Financial Strategy, as it impacts on individual services' budgets, is reflected in service plans so that proper planning can take place in line with available resources. The preparation of service plans is also required in parallel with future years' budget plans since realistic levels of savings have to be determined for services in line with any overall shortfall in corporate funding.

16. The Government's agenda since 2010 of substantially reducing public expenditure has added further pressures on Hyndburn to reduce its costs. The impact of these changes can be seen at Table 1 (para 49) later in the report and requires the Council to continue to make savings over the lifetime of the MTFS. The situation has clearly been made more acute due to the impact of COVID 19.

Integrated Resource Planning with Service Plans

17. Growth items in future years (both revenue and capital schemes as applicable) and areas for savings, need to be identified in the Service Plans and Financial Plans should be developed consistently so that the impact of one on the other is fully appreciated, subject of course to Service Plans remaining within the limits allowed in the agreed Medium Term Financial Strategy. This precludes bids for extra resources arising during the course of the year for implementation in that year unless other funding can be identified. Developments are planned in accordance with a timetable well ahead of the year of implementation. They form part of an agreed strategy and need to be consistent with the priorities identified within the plan. Individual bids for resources, taken in isolation from the overall planning process, should therefore not occur.

Background Information

18. The MTFS covers the period from 2022/23 to 2024/25. Our financial position was already set against a background of continuing

global financial volatility stemming from the worldwide Recession that began as a result of the banking crisis in 2007/8. Before the onset of COVID 19 there were some indications that parts of the globe were successfully recovering and were achieving sustainable positive economic growth, but also contra indications of growing political and economic turbulence which could threaten another global financial crisis. COVID 19 will have tapered down the growth in those areas achieving a positive economic outlook and accentuated the pressure in those areas that were volatile or struggling.

19. The financial recovery in both the USA and UK pre COVID 19 was already fragile and concerns existed of a long period of economic stagnation before any meaningful real economic recovery could be achieved, with the threat of a return to Recession existing for all the major Western economies. The uncertainty surrounding the UK economy is heightened in particular around its decision to leave the European Union and its ability to successfully grow its economy as a free-standing nation. Some of the risk around Brexit without an effective trade deal with the EU has been removed with the agreement between the EU and the UK at the end of 2020. However, the real test is whether the UK can make its new position work and this remains unclear at this stage, especially as there are certain issues between the UK and the EU which continue to cause friction and could lead to a breakdown in the 2020 compromise agreement around the UK's exit.

20. Added on top of these issues which have been major concerns for the last 6 years, we now have the additional challenge of the impact of COVID 19 across the Globe, the Recession it has caused in the UK and elsewhere in the word and whether a swift recovery is likely or even possible or whether we are about to be drawn into a major contraction of economies around the world for a number of years to come.

21. The Government in response to the pandemic shelved its previous long stated position of introducing major reform to Local Government Finance which was due to be introduced for the financial year 2022/23, following its delay from being implemented the previous year due to the General Election of 2019 and the exit from the EU. This announcement has removed the expected loss of £1.5m of Revenue Support Grant from the 2022/23 Budget. At this stage it is unclear if the Government will move ahead with these reforms or abandon them or whether their impact will be watered down from the previous levels under consideration. If they are implemented the loss of potential funding will hit in the 2023/24 financial year and the scale of its possible impact is shown in the Pessimistic Model.

22. Therefore beyond 2022/23, we still face a high degree of uncertainty over the level of our funding, as we await the outcome of the Government's deliberations around reshaping local government funding via their Fair Funding Review and the impact this has on the level of funding Hyndburn will receive in terms of its RSG and Business Rates.

23. The Government's proposals in relation to funding for Hyndburn will be determined by its view of the overall global, political and economic outlook and how this impacts the UK economy and public finances in the aftermath of the pandemic.

24. Global politics and the World Economy were difficult to predict before the pandemic and are even harder to do so now. The economic recovery from the Worldwide Recession of 2007 and 2008 remained patchy even after more than a decade and there were continuing concerns that the World could enter a major recession before the pandemic. The economic consequences of the pandemic over the last 2 years have been severe and it remains unclear whether we are about to enter a period of economic instability and contraction for a number of

years or if there is a relatively quick bounce back to previous levels of economic activity from which a sustainable growth in worldwide and domestic markets can be achieved.

25. Additionally, the major political turmoil and uncertainties of the world have not gone away during the pandemic and it is possible that they could escalate in its aftermath, especially if the major Western powers are weakened economically and politically from the impact of COVID 19 or simply become more inward facing. Russia appears more resurgent now than at any time since the ending of the Cold War and the escalation of territorial disputes with the Ukraine, along with Russian Military action in support of the Government of Kazakhstan and Belarus's more belligerent attitude to the West, all indicate a period of unstable relationships with the potential to dissolve into economic and even military conflict growing.

26. Tensions in the Middle East continue with the ever-present threat they could escalate into a major military conflict, with armed conflict in Syria, Iraq, Ukraine and Yemen all continuing and the situation in Afghanistan unresolved after the withdrawal of Western powers and the establishment of the Taliban as the country's government. In recent years the USA and Iran have seemingly become more hawkish towards each other, escalating the risk of serious conflict between these two nations and their respective allies and it is still unclear if the Biden Administration will be able to successfully achieve a de-escalation here.

27. In the Far East, China and the USA appear to be locked into a trade dispute which will continue to impact on the world economy in unpredictable ways. If it emerges at some later point the Chinese authorities were responsible or seriously negligent in relation to COVID 19, this is likely to cause a further hardening of relations between these two nations. At the same time China is indicating a more aggressive

expansionist policy towards the Pacific and the potential for armed conflict here is also growing and may accelerate, if China perceives the USA's focus may be elsewhere. Additionally, the situation remains tense between North and South Korea and could deteriorate into military action quickly with the potential to escalate to include other countries.

28. In Europe, the pandemic has also added to the problems the European Union was already facing. These include many countries within the EU and those in the surrounding countries facing limited economic growth and possible recession. Germany's financial strength and its ability to underwrite the European Union now looks fragile and with the end of the Merkel era its ability to provide the cohesive political leadership required is also in question. Greece in particular, but also Spain and Italy, all have potential national economies that could fail if put under further economic pressure and Spain has the added complication of dealing with the separatist push from Catalonia, which could escalate into a problem with much wider European implications if the conflict continues to grow. The UK's exit from the EU will be watched by many countries to see whether it survives and thrives and if it does, this may strengthen political movements in other EU countries to seek similar arrangements, creating more political and economic turbulence across the continent.

29. In Latin America, Argentina, Venezuela and Chile are all facing significant political and economic challenges and many other countries in the region are struggling to maintain a functioning government and economy. Brazil has emerged as one of the countries which has been hit the hardest so far by COVID 19. Brazil and her neighbours across South America therefore remain significantly at risk that this health crisis pushes them into an economic decline which could impact the rest of the Globe including the UK.

30. In setting a national budget for the UK, the Government must attempt to determine an economic outlook in the face of the pandemic as well as all the other uncertainty and risk that exists around Brexit, the economy, Health, Social Care and many other pressing matters.

31. During the 2019 General Election campaign, there were indications from the Conservative Party that if they were elected, they would implement a more relaxed approach to public spending compared to the austerity of the previous 10 years. The short time between their election and the onset of the pandemic however did not allow any real insight into whether this had been simply election rhetoric or marked a fundamental change in fiscal and economic policy. Certainly, since the pandemic the Government has shown itself willing to spend huge amounts of money to ensure the health of the nation is protected and the economy continues to function at some level. At this juncture it is unclear if once the pandemic is under control whether the Government will continue to make widespread funding available to support the private and public sector or if it will be forced, either for economic or political reasons, to revert back to much tighter controls around public finances.

32. It is also not certain that even if the Government did loosen the purse strings in relation to public finances whether local government and in particular districts councils such as Hyndburn would benefit. It is possible that any boost in spending in other parts of the economy or public services could be funded by further squeezing spend on local government. Or it could be that any boost in financial support to local government, could be directed to specific areas such as social care within local government and that this is achieved by a redistribution of funds within local government—moving money away from district councils and directing money towards County and Unitary Councils. So, while there

could be more spend in certain areas, Hyndburn may still actually see a reduction.

33. This view is strengthened as the Government has indicated for many years that it intends to abolish Revenue Support Grant and other direct grants to District Councils. This would lead to Hyndburn losing between £1.6m and £2m of current Government Grant which is used to support our day-to-day delivery of services. This was originally due to occur for the 2020/21 financial year but was delayed due to the 2019 General Election. The change was further delayed for an extra two years at least due to the pandemic.

34. The Medium Term Financial Strategy now considers the possibility that there will be no significant change to Government funding of the Council in the years ahead, but also recognises the very real prospect that the Government will push ahead with this reform agenda over the coming year. If they do move forward with previous plans to remove the remaining RSG the Council receives along with any other direct funding, this will see over £7.1m of government grant lost to the Council compared to the position that existed in 2010/11.

35. What will happen to our other funding however remains unclear. Meaningful clarity will only emerge once the detail of the Fair Funding Review is known. Previous MTFS had imagined the final loss of Revenue Support Grant would be the end of the major upheavals in our finances stemming from the World-Wide Recession and we would at least enter into a period of stability once we reached the point in which the Government could no longer reduce our funding, as we had no direct grants left for them to remove. However, discussions on Fair Funding have redefined the potential range of outcomes in terms of our future funding levels. Any new major review of local government finance could lead to a new redistribution model beyond the removal of direct grants

which might transfer away more of our resources from local tax revenue via the Tariff methodology or some new mechanism the Government introduces.

36. The timing of the implementation of the review could also be critical to the Council's finances over the next few years. Currently the system allows Council's the benefit of economic growth between periods of reset[2]. If the new system of funding is introduced ahead of any substantial growth in business rates the Council could benefit greatly from this uplift in subsequent years. However, if the growth takes place before the new funding methodology is adopted, the Council is likely to lose out on most of this growth going forward.

37. Until the Government provides local councils with this information on how much it will receive and how the funds will be distributed, Hyndburn and all other local authorities are forced to rely on estimates of future revenue streams which may be wide of the mark. Currently there is a wide divergence amongst commentators on the potential outcomes. These range from the very optimistic, heralding a new wave of public expenditure directed at the North, to the more austere, pointing to the limits of public finances currently, particularly in the aftermath of the pandemic, the threat to the economy from exiting the European Union and the political and economic turbulence across the Globe.

38. Additionally, whatever path the Government might wish to pursue, it may be blown off course significantly if any one of the listed risks crystallises or other new shockwaves cause significant disturbance to

[2] The reset is a tool used by Government to determine the baseline of business rates revenue for a given period. Once determined any growth in business rates over the forthcoming period substantially goes to the local council. The reset which occurs every number of years, effectively wipes out some or all of the previous growth figures and sets a new baseline.

the Global Economy or Britain's overall financial position as has occurred over the last 24 months with the arrival of the pandemic.

39. The Medium Term Financial Strategy usually assumes that the Council is able to deliver its current year Budget as planned. Despite the continuing extraordinary pressures on the Council due to COVID 19 continuing throughout 2021/22, the Council looks as if it will be able to deliver its Budget within the planned resources. Having managed to deliver a balanced budget for 2020/21 and it now appearing we can deliver one again in the second year of the pandemic, the Medium Term Financial Strategy assumes we will be able to continue to do so over the next three years.

40. Appropriate levels of reserves remain critically important to the Council, as the last 2 years has demonstrated. The same potential wide range of potential threats to our long term financial viability remain with the threat of the impact of a pandemic now added to them. A reserve level of around £2m therefore remains important for the Council to maintain given the potential for :-

- large reductions in Central Government support for the next few years continuing and the prospect of a major review of local government finances,
- Cost inflation continuing while overall revenue growth is downward,
- the need to incur upfront costs to secure long term savings,
- the potential economic instability stemming from Brexit,
- the ongoing economic impact of COVID 19,

and the continued much more volatile financial climate in which we now operate.

41. The format of the Medium Term Financial Strategy considers the current estimated resources available for 2022/23 and builds upon anticipated changes to income and costs over the following 2 years. At this stage, the Medium Term Financial Strategy considers the broad strategic impact of known changes. As always, it is possible for new events to affect the budget position and these will be considered in future revisions to the Medium Term Financial Strategy. It is anticipated that the next update to the Medium Term Financial Strategy will occur in October 2022, immediately ahead of the Council commencing the process of setting its Budget for 2023/24.

42. Despite the difficulties over the last 9 financial years caused by substantial reductions in our funding from Government, the Council has continued to maintain its finances and provide value for money services. Balances were in excess of £2.3m at the end of the 2020/21 financial year and we have generated significant savings in each of the last 15 financial years. It will remain important to the Council in the future that we continue to generate savings each year so that we can fund future capital spend and further investment.

Financial Analysis 2022/23 to 2024/25

43. This report at Appendices 1, 2 and 3 sets out the numerical values of the combined impact of the different financial assumptions for the next 3 years. Detailed commentary on the assumptions and their financial value is provided below. The report looks at the strategic shift in a number of the largest areas of the Council's Budget, before examining those changes which are a more persistent element within our financial forecasts.

Resources

44. From April 2011 the Council faced major changes in how it is funded as a result of Central Government decisions taken to reduce overall public sector spending in light of the worldwide recession and pressure to reduce the national deficit. These changes include:-

- The ending of the system of direct government funding to local government based on need;
- The introduction of a new system centred around how much revenue is collected locally as business rates, adjusted via a series of tariffs and top-ups;
- The transfer of the risk of non-collection of business rates and the cash flow impact away from HM Treasury to local government;
- The ending of the national universal system for Council Tax benefit and its replacement by locally determined schemes with an accompanying 10% reduction in funding at a national level in the first year and subject to further grant reductions in subsequent years.

45. These changes since their implementation have significantly reduced the core funding of the Council. The changes also create a much greater risk of volatility between years as business rate collection is much more prone to fluctuate than the previous system of government grants

and Council Tax Support levels may vary significantly depending on the state of the economy and the number of claimants.

46. These changes effectively signalled a period of significant decline year by year in the overall resources available to the Council since 2010/11, with only small amounts of respite occurring in recent years and with the expectation that the downward trend will be resumed at some near point in the future.

47. The Government has said it will introduce a new system of local government finance and this will further add to the complexity of forecasting our overall financial position. As yet there are no indications of how the new system will work or how the amount of funding the Council receives will change. The proposals were due to be announced in Autumn 2019 and implemented for the start of 2020/21 financial year. However, these reforms were suspended due to the General Election in 2019 and the exit of the UK from the EU. The reforms were again delayed in late 2020 as a result of the pandemic and will now be most likely introduced for the new financial year commencing in 2023/24.

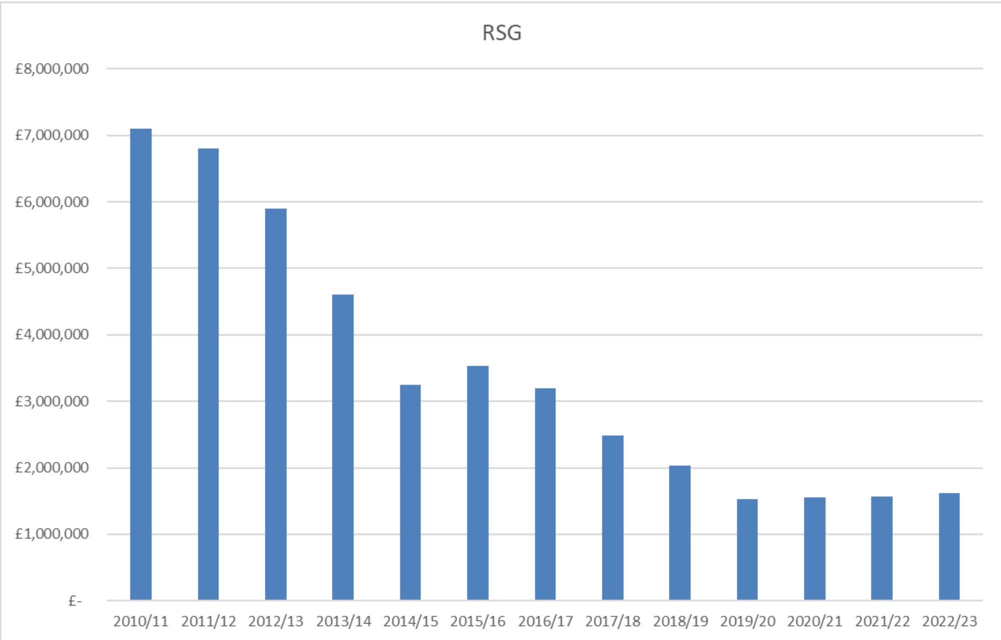
48. It is no longer, as certain as it once seemed that the reforms will go ahead as originally articulated and they may be severely water downed compared to some of the initial forecasts or abandoned altogether. This possibility is now reflected in the Standard Model which sees Government Grants continuing at current levels for a number of years. While continuation of the status quo is recognised as one of the most likely single outcomes out of the array of potential outcomes, it needs to be recognised that overall, it has a relatively low probability compared to all other possible options and the overwhelming likelihood is for a reduction of some sort in Government funding going forward.

Government Grant

49. The Council has been one of the hardest hit by Government from reductions in financial support since 2010/11. The cuts in the early part of the decade were substantially accelerated in 2016/17 with a number of further adjustments the Government introduced to the funding model to distribute financial support to local councils. Table 1 below shows the impact of the reduction in Revenue Support Grant on the Council over this period.

Table 1 Changes in Revenue Support Grant (RSG)

2010/11 to 2022/23



50. From a position in which Hyndburn was receiving over £7.1m in Revenue Support Grant in 2010/11, the amount of funding had been reduced to £1.5m by 2019/20 and the erosion of this funding completely, only

abated over the last 3 years due to the impact of Brexit and then Covid 19.

51. Until the 2019/20 financial year the Government had been very clear over its intentions to remove Revenue Support Grant altogether. It had already removed Revenue Support Grant at a number of Councils and was intending on pressing ahead with this policy and other major reforms of local government finance, which would see a further radical shake-up of Councils' finances. It was only the resignation of Theresa May and her replacement by Boris Johnson that led to a pause in the proposed reforms as Brexit legislation and the 2019 General Election took precedence. Covid 19 has led to a further curtailment of these plans in both 2020 and 2021. However, there still remains a desire within MLUHC to see these changes introduced, though it is no longer clear whether they will be as radical as originally proposed in a post-Covid world.

52. After a decade in which Central Government took a variety of additional other steps to remove financial support from local government, including Business Rates reform which transferred the non-collection risk from HM Treasury to local council, the ending of the universal Council Tax Benefit System and the removal of various specific grants, we wait to see whether further reductions will recommence immediately Covid 19 ceases to be perceived as a major threat, or if the injection of cash into local government during the pandemic will continue in its aftermath.

53. It is likely that some clarity on the future direction of local government finances should emerge in late 2022, with the Medium Term Financial Strategy recognising the potential for the reform case either to disappear or be implemented with varying degrees of impact on the Council depending on its severity. For the first time in a number of years it is recognised that the status quo may have as much chance of emerging as any other possibility and Government Grants at current levels may

survive over the period of the Medium Term Financial Strategy. Whilst the current position may have as much chance of emerging as any other single case, it needs to be remembered that there are many future positions which when combined indicate the overall probability of a financial settlement from Government which is negative, significantly outweighs the maintenance of the current position.

Business Rates

54. In addition to the substantial alterations to local government funding created by the withdrawal of Revenue Support Grant, the Government introduced major changes to Council funding from April 2013, which ended the previous system of business rates collected locally but pooled nationally and redistributed by the Government via an assessment of "need".

55. The new system from April 2013 attempts to allow Councils to retain the business rates raised locally. However, the implementation of the new system was significantly altered from the original aspiration of local business rates retained locally and the current system sees the vast majority of business rates transferred away from Hyndburn. This is due to Government rules which firstly top-sliced 50% of locally collected business rates into a Central Government pot to support a variety of Government policies across Local Government. A further 10% of the monies collected are transferred to Lancashire County Council and the Lancashire Combined Fire Authority, leaving Hyndburn with only 40% of the locally raised business rates. The 40% remaining in Hyndburn is then further reduced under the rules introduced by the Government to further redistribute funds between local Councils. In a system called "Top-Ups and Tariffs" the Government determines amounts to be deducted from "Tariff" Councils to help fund Councils which did not have sufficient funding in their view to meet their expenditure needs.

56. As a consequence, Hyndburn which raises between £16m and £17m in Business Rates each year is only allowed to retain about 25% from this source of funding to use locally, with the remainder transferring to the Government or other local authorities.

57. The Government has indicated that it wished to move to a system of 100% of Business Rates going directly to Local Government, expanding upon an earlier decision to earmark 50% of Business Rate income to be retained by local government. However, after that announcement, the Government made almost no progress towards its implementation as various difficulties in devising and introducing such a scheme emerged. Hyndburn participated in a Pilot Scheme in 2019/20 to increase the amount distributed locally from 50% to 75%. However, the Government announced in late 2019 that the Pilot's would not be renewed for 2020/21 and Pools would revert back to a 50% share of growth and this position has been confirmed for 2022/23. We wait to see whether the Fair Funding Review to be introduced in 2023/24 will increase the amount of business rates retained locally above the current 50% level and whether any such change has an overall positive financial impact for the Council or whether it simply offsets losses in this area from other funding reforms. The impact around the level of business rates retention is therefore expected to be subsumed within the wider reforms to local authority finances within the Fair Funding Review.

58. The forecast level of business rates in the future will therefore depend on two major factors. How much the Government determines a Council should receive as a baseline from business rates and how much additional income is achieved and retained. The general view is that these changes are expected to redistribute funds away from District Councils.

59. The Fair Funding Review is likely to be fraught with difficulties and has already been abandon on a number of occasions. There have also been a number of unsuccessful attempts over the last few decades to reform local government finance, all of which have failed. The latest attempt must therefore be considered as likely to be delayed further or abandoned altogether as it is to be implemented by the revised date of 2023/24. This therefore creates significant uncertainty for the Council around its Medium Term Financial Strategy in its second year of 2023/24 and beyond.

60. From statements already made by the Government, the Council already faced the strong prospect that it would lose all of its remaining Revenue Support Grant in 2023/24, and it now faces the additional risk that the resource it receives from Business Rates could also decline as a result of the Fair Funding Review redistribution of existing resources in a different manner to that done currently.

61. There is no clear basis on which to currently estimate the level of change the Council will face from the Fair Funding Review. There were mixed signals from the Government during 2018 and 2019 over the purpose, extent and degree of radicalism of the potential changes under the Fair Funding Review. The only consistent message was that no additional funds would be made available to local government and the Review would be a redistribution of existing resources between councils and not an injection of new funding. In the latter part of 2018 and the early half of 2019, the Government was clearly under further mounting pressure to address the underfunding of adult and children's social care amongst County Councils. Given the scale of the gaps forecast by County Councils in this area, this would require a major reduction in funding to District Councils to make a partial dent in the situation faced by County Councils. The magnitude of any such change was highlighted as

potentially pushing many District Councils into severe financial difficulties. Since Boris Johnson became Prime Minister and the December 2019 General Election, the ability to predict what will occur has further been complicated, with widespread election promises around additional public spending and a change in emphasis away from austerity towards investment and growth and now the impact of COVID 19.

62. With no clear basis on which to currently estimate the level of change the Council will face from the Fair Funding Review, for forecasting purposes the assumption made is that for 2023/24 revenue levels of £4,469,920 can be generated from a mixture of inflationary increases and expansion of the tax base, along with improvements in collection rates as we exit any ongoing financial challenges from COVID 19. The forecast for the following year two years sees an additional 5% increase on the previous year's income due to the impact of inflation and a small amount of growth in the tax base.

63. The Pessimistic Model assumes the revenue stream from Business Rates stagnates over the second and third year of the MTFS as inflationary increases are low and any growth in the tax base stemming from new businesses or the expansion of existing businesses is offset by the impact of appeals, business closures and increased non-payment. The Optimistic Model assumes we can achieve an 8% increase in each year beyond 2022/23. However, at this stage, there is no way of assessing what the actual change will be and it is likely we will only see the actual figures late in the year before setting the 2023/24 Budget. The assumptions used are therefore more illustrative than scientific at this stage and while we will need to plan on the basis of the Standard Model until we receive real information, we will also need to develop financial flexibility to be able to respond to the potential major swings in funding that could occur either way.

Council Tax

64. With the significant decline of Government Grant from 2010/11, Council Tax became the largest single contribution to the Council's Revenue by the middle of the decade. The Council is rightly proud of its record as a Council that thinks very carefully over increasing the burden on local people's spending power through tax increases and has over the last 20 years kept its average Council Tax increases below the rate of inflation. Hyndburn is only one of 7 councils to have this distinction and the only one north of Watford to do so. This is a remarkable achievement given that in Hyndburn's case it will have not been able to replace the lost income from below inflation rises by using significant growth in housing numbers and Hyndburn will have effectively had to deliver more efficiencies instead, to maintain its Balanced Budget position.

65. Now faced with the potential loss of some or all of its funding from Government after 2022/23, the Council needs to look to increases in Council Tax to partly fill the gap. The Medium Term Forecast therefore assumes for all 3 financial years of the Council will increase Council Tax by the maximum allowed by the Government under its capping regulations. The capping level for a District Council is any increase up to a maximum of £5.00 or not above 2%, whichever is the greater. This rule is expected to remain in force throughout the period of the MTFS. For 2022/23 we are forecasting Council Tax revenues of £5,486,430 based on a Council Tax of £260.64, which would rise to £5,707,566 the following year based on a 2% increase in a Band D property with collection rates and council tax support numbers returning to the levels predicted pre COVID 19. In 2024/25, the forecast is that revenue will grow by a further 2% for inflation and a 2% expansion in property numbers to provide the Council with £5,937,642 of revenue.

66. It is not expected that Council Tax income will decline over the coming period, but the Pessimistic Scenario reflects that the increase in income will only come from the increase in the charge per household and that there will be no increase in the overall tax base during this period.

67. Compared to the Standard Model, the Council loses over £112,000 of income in 2023/24 and is £231,000 worse off in 2024/25 under these assumptions. The cumulative impact over the 2 years is a loss of £343,000 of revenue to the Council that it would be able to use to support local services.

68. The Optimistic Scenario shows a more buoyant second and third year in terms of Council Tax income with £112,000 of extra income stemming from developments etc. in 2023/24 and a further increase from Council Tax of £235,000 in 2024/25. This would reflect above average growth in the local housing market and potentially the early dividends from the proposed development at Huncoat starting to impact on the Council's finances.

69. Due to the impact of the pandemic, we expect the Council Tax Collection Fund to only break even over the next few years in both the Standard Model and the Optimistic Scenario. If the economy is hit more severely it is likely that the break-even position will not be maintained and a deficit of £100,000 per year is predicted in the Pessimistic Scenario for 2023/24 and 2024/25.

Expected Loss of Income

70. The Government is continuing with its proposed reforms to the national Welfare Benefits System and plans to consolidate most benefit payments into a single system called Universal Credit. As part of this

process Housing Benefit, which is administered by local authorities will end, at least for those of working age. As such the Government is substantially reducing the amount it pays local councils to undertake this work and the funds the Council receives back from these payments is also declining. The Government announced an original timetable in which it envisaged that all working age Housing Benefit Claims will cease by the start of the financial year 2018/19. This deadline has now been moved back again and there is potential for further delay in its roll out due to COVID 19. The MFTS therefore adjusts the loss of this income over the next two years by £150,000 per year and £100,000 in the third year. The Pessimistic Scenario recognises the potential for both the administration and benefit elements to decline in the third year at the same rate as the previous two years at £150,000 rather than £100,000. While the Optimistic Scenario shows the reduction in funding declining to £75,000 in 2023/24 and nil in 2024/25, reflecting a more gradual transition of claimants to the new benefit.

Changes in Costs

Salaries Costs

71. As an individual line across all budget areas the cost of employing staff at over £10m is the largest expense faced by the Council. Upward pressures on this budget stemming from pay awards should remain low compared to historic norms. Between 2010/11 and 2018/19 wage increases in local government were limited to 1% or lower as the country recovered from the 2008 Recession. In 2018/19 the national wage settlement was agreed for 2 years with most staff receiving 2% each year, but with higher percentage increases for those on the lowest pay. The 2020/21 wage settlement was agreed just before the pandemic at 2.7% but there has been no agreement of the rise for 2021/22 financial year or

for 2022/23. However, it is likely that these will be at 2% or below given strong pressure from Government to keep wage settlements affordable, a lack of public support around salary increases in the public sector and continuing financial pressures across local government to balance budgets and avoid the need to make service and job cuts. The MTFS therefore uses a 2% increase in Salary and Pension costs for each of the three years and it is assumed that this level of rise will cost around £270,000 per year.

72. It is possible that wage settlements will be higher if the economy shows stronger signs of recovery and this scenario is covered in the Pessimistic model. This assumes that increases after 2022/23 are 4%. Given that resource levels are likely to remain under pressure over the period, wage increases add to the overall pressures to make savings and may lead to the need to make more redundancies than the Council would have done if wages had remained at the predicted level.

73. There is no uplift in payroll costs expected to occur due to the introduction of the Living Wage. Currently the Council is paying above the levels proposed and estimates indicate that it will only have a small impact on our overall wage bill in 2022/23 and it is assumed the impact can be accommodated within existing budget projections at this time.

Pension Costs

74. Pension Costs are expected to be stable over the period of the MTFS. The next revaluation exercise is not due to be implemented until at least 2023/24 and it is possible it will take place later, as the Government are considering widening the gap between these exercises. The Council is expected to continue to benefit from its strategy over recent years of overpaying contributions when it can and limiting exit costs unless a strong business case can be made to justify such a course of

action. Our current assumption, based on the latest briefing from the Pension Fund is that if the revaluation goes ahead for April 2023, there should be no significant alteration in employers' contribution rates, as the Fund remains in a strong financial position. Further clarity should emerge in the Autumn when the Fund's Actuary will provide an initial update on the revaluation exercise. As a consequence, for modelling purposes Pension costs are seen as neutral across all three scenarios at this time.

Supplies and Service Costs

75. Recent months have seen a spike in inflation in the UK and some other Western economies, with the USA reporting a 40-year high just before Christmas and the UK reporting inflation at 5.4% in January 2022. This appears to be driven by a combination of supply side issues, particularly in energy markets as the global economy grows after the significant demand decrease during the pandemic. In general, however, long term inflation over the period since 2015 has remained low and if the world economy quickly adapts to the current situation and manages to address the supply side issues, inflation is likely to quickly return to pre-pandemic levels as surplus production capacity comes back on stream. In addition, the Bank of England has already taken pre-emptive action to control inflation and signalled it will take further action as necessary. The Medium Term Financial Strategy therefore assumes general inflation continues at around 2% across the 3 years.

76. Predicting the level of general inflation in the economy however remains a major challenge and one fraught with uncertainty. The MTFS therefore assumes inflationary pressures of around £130,000 per year for the three years for the Standard and Optimistic Scenario. The Pessimistic Scenario assumes inflation running at 4% in 2023/24 and 2024/25.

Capital Costs

77. The Council has over the last 14 years maintained a strong commitment not to borrow to finance Capital Expenditure. In doing so, it has ensured that it has not added to the burden of its revenue budget by having to pay increased loan costs. The intention within the MTFS is to maintain that commitment. The Capital Programme will be funded from a mixture of carry forward receipts from the Housing Market Renewal Programme, the use of one-off grants from the Government, surpluses, external funding and existing Capital resources.

78. The ending of direct Housing Market Renewal Programme (HMR) has led to a substantial reduction in the overall size of the Capital Programme over the last 10 years. Residual HMR funds will be used over the next 36 months to complete work in this area and help finance other capital investment projects.

79. The Capital Programme for 2022/23 will significantly reverse the trend of a long scale decline in our capital spend, dating back to 2010, with a potentially massive increase in spending for 2022/023 and beyond. The increased substantial investment will be driven by the Council accessing £20m of Government Levelling Up Grants to improve Accrington Town Centre and embarking on a major investment programme of investments into its leisure assets to support the drive to improve the health of those living in the area. The Accrington Town Centre project proposes £24m of capital investment commitment with £20 million from the Government's Levelling Up Fund and £2m from Hyndburn Council's Capital Programme and the creation of a contingency fund against escalating costs or further developments of a further £2m. The Leisure Estate investment currently envisages £12m of investment

with at least £2m of support coming from Sport England and with the potential for other external providers also supporting the project with additional financial support towards the development. The scale of the investment for the Council will require it to fund the project via the use of capital receipts, the use of reserves and some external borrowing. This will be the first time for over a decade the Council has borrowed to finance capital spent, however it is expected the level of borrowing will be low compared to the overall investment made and should be able to be met within existing budgets. Outside of these two major projects, the Council's strategy remains to continue to manage its capital programme prudently and have a modest programme of spend at around £1m per year. This will ensure that only the highest priority capital projects are funded by the Council and that the cost of capital projects do not create an additional funding pressure for the revenue budget going forward.

80. The MTFS in February 2012 showed a need for the Council to begin to set aside a substantial amount (£750,000) from within its Revenue Budget in both 2013/14 and 2014/15 to fund a modest Capital Programme in these years. However due to careful financial management of the Capital Programme and effective husbandry of other resources, it should be possible in this MTFS to delay the need to fund future Capital Programmes from revenue spend until after 2024/25 if expected capital receipts arrive over this period.

81. We will therefore continue to earmark time limited and one-off grants such as New Homes Bonus for Capital and we will also support the Capital Programme from any additional revenue, from surpluses on the Collection Fund or the Pooling of Business Rates etc. when these are available and don't need to be used to underpin the Revenue Budget as well as any in-year savings that are generated and capital receipts.

82. This will enable us to limit the need to borrow to the Leisure Estate Project and therefore not increase the pressure on the Revenue Budget over the period.

83. The Capital Programme is always oversubscribed and the Council will continue to have to make tough choices over which projects to support in line with its key objectives. It should however be able to fund its highest priority projects over the coming 3 years, without burdening future taxpayers with an increased legacy of unaffordable debt and interest payments.

84. Current predictions indicate the Council has sufficient funds to finance its capital expenditure plans over the next 3 years. This is however reliant on the achievement of significant capital receipts over the period and continuing to only fund the Council's highest priority projects. If the sale income from anticipated disposals is delayed or sales in the pipeline do not mature, decisions around curtailing capital expenditure or using some stop gap funding including short term borrowing may be necessary. Recent indications from the Government that New Homes Bonus might be reduced or abolished may add to our difficulties in this area as it would remove a source of funding, we have previously used to assist in financing our capital expenditure.

85. The Pessimistic Scenario deals with the impact of having to fund Capital Expenditure from Revenue by £500,000 in 2024/25. This could occur if the Council is unable to limit its capital expenditure commitments to less than £1m each year or there is a drop in sales receipts or other funding we use for Capital Expenditure. This scenario increases the saving pressures within the Pessimistic Scenario substantially.

Growth

86. Over the past 15 years the Council's Budget has been set with very little accommodation for growth items beyond such pressures as salary and wages increases and other significant external pressures. The Medium Term Financial Strategy recognises the need to finance some in-built cost and income pressures in 2022/23 and £500,000 has been assumed for those purposes, as an affordable level, though demand is likely to be many times higher.

Reserves

87. Over the last 14 years, the Council has been able to rebuild its Revenue Reserves. This has seen the negative position of 2003/04 replaced by Balances at the 31st March 2021 of just over £2.3m. This level of Reserve would normally be viewed as healthy given an overall spend of between £11m and £12m. However, the level of challenges faced by the Council would indicate that this level of Reserve may only be a minimum level of what is needed given the significant increase in costs and the reduction to its revenue funding that it faces. It is therefore recommended that Reserves are maintained at a minimum of £2.0m or strengthened whenever possible to meet any major challenges which might occur over the next 3 years, which could not be dealt with via the normal budgetary process.

88. The threats to the Council outside its normal budgetary pressures include,

- the continuing financial impact of COVID 19

- ❖ the proposal by the Government to conduct a Fair Funding Review and implement its findings in 2023/24, which might further substantially reduce the monies the Council currently expects to have at its disposal
- ❖ the continuing economic uncertainty which may lead to the Government having to reduce public sector expenditure further or requiring the Local Government sector to shoulder more of the burden
- ❖ the impact of Brexit and any potential downturn in the economy that would impact on commercial, housing and land development and thereby supress fees the Council earns from providing services to the business and local community such as planning fees, land search fees etc.
- ❖ the Government's transfer of responsibility to local Councils for determining Council Tax Benefit and capping the amount it will reimburse in the future regardless of whether

there is a surge in the numbers claiming the benefit

- ❖ the continuing risk of challenges to planning decisions and the costs of defending these through the legal process

- ❖ the threat of substantial claims under employment law

- ❖ the increased threat of industrial action during a period of public sector pay restraint and job losses

- ❖ emergency spend pressures in-year, due to one-off items of capital or revenue spend

- ❖ risks around the conclusion of the Housing Market Renewal Programme

- ❖ the continuing trading difficulties experienced by Hyndburn Leisure and the financial pressures on partner organisations and the third sector in general

- ❖ insurance claims for which cover is not in place, in particular claims relating to items formerly covered by Municipal Mutual Insurance which has gone into liquidation and historic employee health claims dating back to the 1960s, 1970s and 1980s.

- supplier failure during an elongated period of uncertainty

- environmental warranties on our land and guarantees provided to Hyndburn Homes over land transferred to them

- continuing reductions in our income from fees and charges as the economy continues to struggle

- the need to meet the cost of land acquisitions under the Community Right to Purchase legislation.

- Fines stemming from breaches around data protection under the new General Data Protection Regulations.

Other Assumptions

89. The MTFS assumes that the Council is able to present a balanced budget each year and operate within that budget and that it does not need to draw upon reserves or overspend within any financial year.

90. It assumes that any draw down of reserves which drops us below the minimum level required is either immediately replenished within the financial year or a top slice of funding from the next year's budget is made to ensure they remain at the stated level.

91. It assumes that service provision remains largely within the current confines and that no major initiatives are imposed upon the Council without suitable funding provision. For instance, the MTFS does not allow for the return to weekly refuse collection without the Government providing the necessary funds not only to manage the change process, but also to meet the additional on-going revenue costs.

Equality Impact Assessment

92. There are no specific proposals within the MTFS that would require the completion of an Equality Impact Assessment (EIA). This document remains a high-level strategic overview. Individual EIAs will be completed for relevant policy developments, service alterations and saving plans as they occur, as a response to the overall financial plans of the Council.

Scenarios

93. As with the previous MTFS we have attempted to outline the potential range of scenarios around the Council's Finances over the next few years, by varying some of the key assumptions. In order to avoid a

myriad of possible scenarios, we have presented in Appendix 2 and Appendix 3, two scenarios towards either extreme side of the MTFS forecast. This allows the potential maximum and minimum range of savings required over the next 3 years to be broadly established. Due to the delay and the potential unknown impact at this time of the Fair Funding Review, the range and accuracy of these forecasts is more limited than in previous years. It is hoped that once the Fair Funding Review discloses the new financial settlement these forecasts can return to their previous degree of rigor.

94. The MTFS has therefore been developed around key assumptions of what is most likely to occur and then two scenarios produced showing what might occur should these assumptions be confounded by other events, all moving in one particular direction or the other. Appendix 1 to this report sets out the scenario which it is believed is the most likely to occur and is labelled the Standard Model. Appendix 2 shows what might occur if many of the negative things that could happen did actually occur and this is labelled the Pessimistic Model. Appendix 3 shows the opposite situation in which the Council benefits from a series of good outcomes with resources growing and downward pressure on spending occurs. This is the Optimistic Model.

95. This approach produces a spectrum of the possible ranges in which the Council's finances will have to operate over the next 3 years. It does not cover every eventuality and there are possible outcomes outside of the ranges shown, though these are deemed to have only a small chance of occurrence.

96. It is possible the Council could emerge with a stronger financial position as a result of a combination of these volatile factors going in its favour. A strong financial position for the Council could emerge for instance if

- The economic recovery from COVID 19 is swift and the plan to recover public finances from the additional costs incurred in addressing the pandemic do not involve a period of austerity.
- The Government decides to boost the economy by an injection of cash into the country and expanding expenditure on public services particularly in the North with Hyndburn receiving extra revenue as a result.
- The exit from Brexit going much better than most commentators have predicted and the country thriving outside of the European Union.
- Political tensions in the Middle East, the Far East and with Russia reduce.
- The global economy avoids recession and begins a steady period of growth

97. The Optimistic Model shows a scenario in which the Council's revenues grow throughout the period and spending pressures can largely be easily dealt with over the next 3 years and with the opportunity for the Council to run a surplus Budget in 2023/24 and 2024/25. The Optimistic Scenario which shows strong levels of revenue growth for the Council from additional grant funding from Government along with buoyant tax revenues from Business Rates and Council Tax and expenditure only rising at low inflation rates is however viewed as significantly the least likely scenario to occur.

98. The Standard Model which shows the most likely single position compared to each other single possible outcome, predicts that the Council after achieving savings of £294,000 in 2022/23 to balance its Budget, will only have a small savings target for 2023/24 of £45,000 and the potential to run a Surplus Budget in 2024/25. The Standard Model is

the most likely single outcome position because it has a relatively high probability[3] of occurring because of the likelihood the Government once again does not implement the proposed reforms to local government finances and therefore the Council will receive Government Grant funding on an on-going basis, based on the 2022/23 proposals plus inflationary increases. If the Government does institute reforms to local government finances, the Council faces a wide range of potential outcomes, almost all of which will see its financial position much worse than indicated by the Standard Model and at the most damaging will be as indicated in the Pessimistic Scenario outlined below.

99. The potential for the Council to face severe financial pressure over the 3 years is shown in the Pessimistic Model. This model assumes a backdrop of fragmented global economic growth and potential recession, heightened political turbulence across the world accentuating a decline in economic growth and a UK Government limiting public sector spending and switching money away from District Councils, particularly in the North of England. The level of savings required to be generated each year by Hyndburn in these circumstances are significantly higher in each year than the other models and are likely to be very challenging for the Council to deliver.

100. The Pessimistic Scenario presented at Appendix 2 looks at the baseline assumptions for the MTFS and adjusts them for the following reasons.

[3] There are a large number of potential outcomes from any decision by the Government to introduce reform to local government finance. In almost all cases it is likely to have a negative impact. The scale of the change could range from benign to severe. Individually each scenario is less likely to occur than the maintenance of the status quo, but collectively it is much more likely that a negative situation will occur. In the same way when rolling two dice, the most likely single outcome is to roll a combined score of 7, but when all possible outcomes are considered, it is much more likely that a 7 is not achieved.

101. In terms of income the Pessimistic Scenario indicates that revenue could be lower after 2022/23 compared to the Standard Scenario due to the loss of RSG and other Government Grants paid in 2022/23. (There is an assumption in the forecast that while the Government might remove all these grants, they would need to find a means to continue to fund the additional costs of the national insurance changes that were introduced in 2022/23—as part of the normal agreement around New Burdens Funding which the Government has made. For Hyndburn we estimate this to be £102,000.[4]) It is also assumed that Council Tax Revenues only increase by the 2% allowed under the capping regime and there is no growth in revenues from expansion in the Council Tax Base. The position in terms of Business Rates is predicted to remain at 2022/23 levels with any increase in the Business Rate multiplier or new property growth, offset by business closures, successful appeals against previous rating levels, business closures and continuing high levels of default due to economic stagnation as a result of the pandemic.

102. The Pessimistic Scenario when compared to the Standard Model shows lower income in 2023/24 of £2.4m and the difference growing to £2.8m in 2024/25.

103. The impact of funding from the Department of Work & Pensions in relation to Housing Benefit Grant is shown to be £50,000 more expensive in year 3, as the programme to implement Universal Credit continues to impact at the previous levels rather than beginning to taper downwards.

[4] The New Burden Funding principle is a recognition by Government that when they impose new cost burdens on local government that they should fund the provide the equivalent revenue to offset the cost of this impact. So within the additional funding provided by the Government in 2022/23 there is an element to cover the cost of the extra employer's national insurance costs.

104. In our Standard Model we have assumed a 2% pay award over each year of the three years of the forecast. The Pessimistic Scenario allows for a 4% wage settlement in the second and third years within the forecast, recognising that upward pressure may build for an enhanced pay settlement after a large number of years of enforced pay restraint. This potentially adds a further £270,000 per year to our costs on top of the 2% wage settlement figure already assumed in the Standard Model over these years.

105. Pay awards of this level at a time when the Council was struggling with depleted levels of income would add substantially to the pressure to reduce the size of the workforce.

106. General inflation continues to be difficult to predict. For the Pessimistic Scenario an assumption has been made that the costs of supplies and services rise to £260,000 in 2023/24 and 2024/25.

107. The final factor considered in the Pessimistic Scenario is the need to finance part of the Capital Programme in 2024/25 from Revenue. This assumes that the Council is unable to generate sufficient sales of its land and property over the next 3 years or that it spends significantly above the current forecast and therefore needs to set aside some of its Revenue in 2024/25 to fund its capital spend in that year. Current estimates are that sufficient resources are available to fund capital expenditure through 2024/25. However, if spend exceeds the available amounts the Council has available, it will need to use its Revenue Budget to fund capital spend. A figure of £500,000 has been added to the Pessimistic Scenario in in 2024/25.

108. The combined impact of all these potential changes is illustrated at Appendix 2 and show that the savings target for 2023/24 would rise to

£2.8m (24%) up £2.8m on the Standard Model, while the following year it would be £1.34m (13%), up £1.36m on the Standard Scenario.

109. While it is viewed as unlikely, though possible, that all these factors would combine against the Council, the Pessimistic Scenario at Appendix 2 indicates the Council does face a number of potential challenges, which would require the Council to take a series of much tougher decisions around its spending plans and priorities if these assumptions materialised.

110. The level of savings required under the Pessimistic Scenario would put the Council's finances under severe strain and it is likely it would need to use a considerable amount of its reserves while it attempted to reconfigure its operations so that it could achieve the cost reductions necessary to continue to set a long-term balanced budget, particularly as it is unlikely to know its Government Grant or Business Rate figure for 2023/24, at the time it is making its key budget decisions and therefore will not be able to develop meaningful savings proposals of the magnitude required to balance the Budget in 2023/24 with any degree of accuracy.

111. The Optimistic Scenario is presented at Appendix 3. The major assumptions here are that the Government continues to provide Government Grants to the Council at the level they did in 2022/23 with a significant level of uplift, plus an additional £250,000 of support, recognising the need to provide additional funds to support the recovery from the pandemic and to move forward on the Levelling Up agenda. The Scenario also assumes buoyant tax revenues from Council Tax and Business Rates with 4% growth in the Council Tax Base each year after 202/23 and revenue up 8% on Business rates for the next two 2 years.

112. These assumptions boost the Council's overall revenues by £537,000 in 2023/24 and a further £867,000 in 2024/25 compared to the

Standard Model. With the financial pressures from changes around Housing Benefit declining in this scenario and wage, service and supply costs remaining the same, the Council would be in a position to generate a Surplus Budget of £567,000 in 2023/24 and £458,000 in 2024/25.

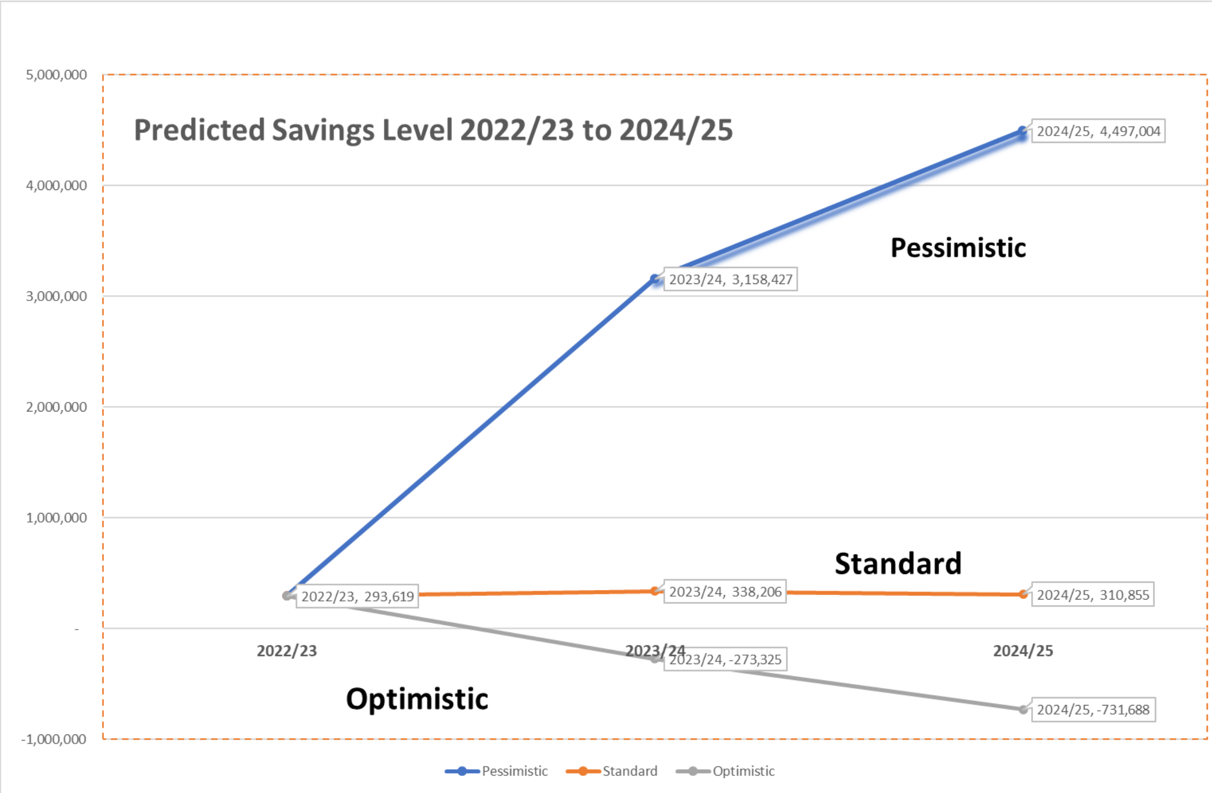
113. As with the Pessimistic Scenario, the Optimistic Scenario painted here would be at the extreme end of the potential range of upside events that could occur to the Council's financial position and is therefore viewed as unlikely to occur in its entirety.

114. In these circumstances, given the existing uncertainties it is not possible to predict which scenario is more or less likely to occur from the wide range of potential options. It is clear however, that the downside risk is far more damaging to the Council's wellbeing and on the balance of probabilities the Council's financial situation will lie somewhere between the Standard Model and the Pessimistic one. Therefore, a course of action which values financial prudence at this time, seeking to continue to maintain Reserves at high levels, boosting income streams whenever possible, particularly from growth in council tax, business rates and fees and charges and avoiding committing to any additional on-going revenue spending will provide the Council with the best chances of overcoming the challenges currently presented. Otherwise, the Council will face significant challenges in maintaining its ability to present and operate a balanced budget and deliver its key services.

115. Clarity and certainty may come within a 12-month period if the Government either indicates it no longer intends to reorganise local government finance or provides the detail of the reform it intends to make. Assuming the government opts for one of these two options we should be able to move into a situation in which effective robust financial planning can take place from 2023/24 onwards. If, however the Government is unable to map out a long-term funding position for local

government finance, the UK' trading position in a post Brexit world remains unattractive and political and economic turmoil continues or escalates, financial forecasting will remain more difficult.

116. There is significant divergence in the financial predictions for the 3 years between the Pessimistic and Optimistic Models. The diagram below shows the potential range from the most pessimistic to the most optimistic put forward in this document.



117. The divergence between the Pessimistic and Optimistic Models in terms of annual savings that need to be identified is £3.4m in 2023/24 before reducing to £1.8m in 2024/25. The cumulative difference is almost £5.2m over the three years. The wide range in the cumulative impact

between the difference scenarios underlines the degree of uncertainty in making accurate forecasts around the impact of local government funding, the growth in local revenues, the future rate of inflation and pay settlements, pressures on Revenue and Capital spending and the on-going financial impact of COVID 19. Given the level of uncertainty it will be necessary for the Council to hold strong reserves over this period and hold off making any major commitments on expenditure until after the Government announces its decision on the future amounts the Council can expect to receive from 2023/24 onwards.

118. The Pessimistic and Optimistic Scenarios are meant to show the outer limits of what might occur and what the Council would face in these circumstances. The reality is that the Council is very unlikely to suffer from all bad news or all good news over the next 3 years and its fortunes will therefore lie somewhere between the two scenarios.

119. The figures in Appendix 1 therefore illustrate the expected position if the Government chooses not to go forward with major reforms of local government finance and the status quo is maintained, while the space between the Standard Model prediction and the Pessimistic Scenario indicates the most likely area of financial challenge the Council will face over the period of the Medium Term Financial Strategy.

120. This indicates a balanced budget can be achieved in 2022/23, with a relatively small savings target for the year of £294,000. The savings requirement for the following year is £45,000 and a small surplus is expected in 2023/24, if the Government does not institute any reforms. If major changes to the way local government is funded do occur, then there is potential for savings requirements to escalate all the way up to £2.8m in 2023/24 and £1.3m in 2024/25.

121. The Pessimistic and Optimistic Scenarios at Appendix 2 and Appendix 3 provide the most likely boundaries within which the savings target will fluctuate over the coming three years. There remains a potential for the savings target to fall outside these boundaries, though this is viewed as remote.

Robustness of Forecast

122. The robustness of the forecasts beyond 2022/23 is severely diminished due to the uncertainties around the funding decisions made by the Government in relation to local government. The Council could lose or gain significant funds from these changes and there is little current evidence on which to make appropriate forecasts and therefore the MTFS has made assumptions at hopefully either end of the spectrum of possibilities.

123. The uncertainty stemming from these decisions will necessitate the Council taking a defensive position in managing its finances and having to lock more funds into Reserves to cope with any negative dramatic swings from the Government's financial review.

124. It is expected that the uncertainty around these forecasts will disappear in late 2022 when the Government announces its intention and the details of its funding proposals for local government. At that point it should be possible to update the robustness of the forecast to good or very good depending on the level of detail released and other factors remaining consistent with the current analysis.

Overall Net Position

125. The Council faces continuing pressure on its finances over the next 3 years. The potential reductions in the level of government grant are significant and the Council will need to take tough decisions over service provision to maintain a balanced budget if these changes are introduced.

126. The key to the future financial wealth of the Council remains tied to the performance of the national economy and Central Government finances but a significant additional risk has been transferred to local government around the level of business rates generated and retained locally.

127. The Council therefore needs to continue to manage its revenue costs aggressively over the next 3 years. The single largest area of influence the Council can directly exert action over, is the size of its Capital Programme. If it can maintain this spend within its available resources and avoid having to finance Capital Expenditure from its Revenue Budget it will greatly assist its overall financial position and ease the cumulative financial pressures on the Council over the 3 years of the MTFS and into the future.

128. The Council also needs to protect its Reserves and the flexibility it has in its current financial position until it is clear that it fully understands the outcome of any changes to local government financing that the Government proposes and brings forward the detail of what they intend to implement.

Appendices to the Report

Appendix 1

Three Year Standard Model
Medium Term Financial Strategy
2022/23 to 2024/25

STANDARD	2022/23	2023/24	2024/25
Resources	**£**	**£**	**£**
Government Support			
Revenue Support Grant	1,616,289	1,664,778	1,714,721
Lower Tier Administration Grant	161,518	166,364	171,354
2022/23 Support Grant	248,224	255,671	263,341
Council Tax Grant			
Council Tax	5,486,430	5,707,566	5,937,642
Council Tax Collection Fund Surplus or Deficit	-		
Business Rates	4,469,920	4,693,416	4,928,087
Other	-		
Use of Reserves	-		
Total Resources	**11,982,381**	**12,487,794**	**13,015,145**
Expenditure			
Prior Year Spend	11,227,000	11,982,381	12,487,794
Adjustments			
HB Admin& Subsidy	150,000	150,000	100,000
Salaries & Wages	153,000	270,000	270,000
Supplies & Services	130,000	130,000	130,000
Reversal of Corporate Savings Target	116,000	-	-
Revenue Contribution to Capital Spend	-	-	-
Growth Pressures	500,000	-	-
Estimated New Operating Costs	**12,276,000**	**12,532,381**	**12,987,794**
Costs Exceed Resources by	**- 293,619**	**- 44,587**	**27,352**
Percentage Savings Required to Balance Budget	2.62%	0.37%	-0.22%

Appendix 2

Three Year Pessimistic Model
Medium Term Financial Strategy
2022/23 to 2024/25

PESSIMISTIC	2022/23	2023/24	2024/25
Resources	£	£	£
Government Support			
Revenue Support Grant	1,616,289	-	-
Lower Tier Administration Grant	161,518	-	-
2022/23 Support Grant	248,224	102,000	102,000
Council Tax Grant			
Council Tax	5,486,430	5,595,653	5,707,076
Council Tax Collection Fund Surplus or Deficit	-	- 100,000	- 100,000
Business Rates	4,469,920	4,469,920	4,469,920
Other	-		
Use of Reserves	-		
Total Resources	**11,982,381**	**10,067,573**	**10,178,996**
Expenditure			
Prior Year Spend	11,227,000	11,982,381	10,067,573
Adjustments			
HB Admin& Subsidy	150,000	150,000	150,000
Salaries & Wages	153,000	540,000	540,000
Supplies & Services	130,000	260,000	260,000
Reversal of Corporate Savings Target	116,000	-	-
Revenue Contribution to Capital Spend	-	-	500,000
Growth Pressures	500,000	-	-
Estimated New Operating Costs	**12,276,000**	**12,932,381**	**11,517,573**
Costs Exceed Resources by	**- 293,619**	**- 2,864,808**	**- 1,338,576**
Percentage Savings Required to Balance Budget	2.62%	23.91%	13.30%

Appendix 3

Three Year Optimistic Model
Medium Term Financial Strategy
2022/23 to 2024/25

OPTIMISTIC	2022/23	2023/24	2024/25
Resources	**£**	**£**	**£**
Government Support			
Revenue Support Grant	1,616,289	1,697,103	1,781,959
Lower Tier Administration Grant	161,518	169,594	178,074
2022/23 Support Grant	248,224	260,635	273,667
Council Tax Grant			
Additional Govt Funding		250,000	262,500
Council Tax	5,486,430	5,819,479	6,172,774
Council Tax Collection Fund Surplus or Deficit	-		
Business Rates	4,469,920	4,827,514	5,213,715
Other	-		
Use of Reserves	-		
Total Resources	**11,982,381**	**13,024,325**	**13,882,688**
Expenditure			
Prior Year Spend	11,227,000	11,982,381	13,024,325
Adjustments			
HB Admin& Subsidy	150,000	75,000	
Salaries & Wages	153,000	270,000	270,000
Supplies & Services	130,000	130,000	130,000
Reversal of Corporate Savings Target	116,000	-	-
Revenue Contribution to Capital Spend	-	-	-
Growth Pressures	500,000	-	-
Estimated New Operating Costs	**12,276,000**	**12,457,381**	**13,424,325**
Costs Exceed Resources by	**- 293,619**	**566,944**	**458,363**
Percentage Savings Required to Balance Budget	2.62%	-4.73%	-3.52%