REPORT TO :	**CABINET**
DATE :	**6th February 2019**
REPORT OF :	**Councillor Joyce Plummer** **Portfolio Holder Resources**
PREPARED BY :	**Joe McIntyre** **Deputy Chief Executive**

MEDIUM TERM FINANCIAL STRATEGY

2019/20 TO 2021/22

February 2019 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 2019/20 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 2019/20 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. Also, this report will be presented to the Council's Overview and Scrutiny Committee during February 2019 when both Councillors and members of the public are invited to attend and make comments on the report. All input is considered before the report is finalised and sent to Council.

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

Medium Term Financial Strategy 2019/20 to 2021/22

Cabinet 10th October 2018

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 2019

INTRODUCTION

1. 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 October 2018.

2. Appendix 1 sets out the background to the current budget predictions in figures to give an idea of commitments, funding and potential Council Tax levels. It indicates that for 2019/20 the Council's Total Income forecast will be down from £11,236,000 in 2018/19 to £10,955,000 a net decrease of £281,000. The reduction is due to the loss of £500,000 of Government Grant compared to the previous year and not supplementing our income from reserves as we did in 2018/19. This loss of income is offset by expected increased Business Rates, additional Council Tax and some other minor changes. Costs are expected to rise by £570,000 and this produces an overall net saving position for the year of £851,000.

3. The forecast for the next 2 years is dominated by the uncertainty around the Government's Fair Funding Review. The Review is due to be completed during 2019 and be implemented for the new financial year 2020/21. Its likely impact will be to substantially reduce the funding of District Councils such as Hyndburn, via limiting the amount of Business Rates raised locally that they can retain. At present, there is no data on which to base any forecasts of the likely reductions the Council faces from these changes. It is hoped details will emerge in the late Summer or early Autumn, though it is entirely possible, the first credible figures we will receive will be when the Government announces the preliminary local government settlement in December 2019.

4. For forecasting purposes within the MTFS we have assumed within the Standard Model, the Fair Funding Review cuts our retained business rates income by £1m in 2020/21 and a further £500,000 in 2021/22. The Pessimistic Model assumes a reduction of £1.5m in 2020/21 with a second year reduction of £750,000 in 2021/22. The Optimistic Model assumes only a £300,000 reduction in 2020/21 and a £250,000 further reduction in 2021/22. The impact on the Councils funding is significant with the minimum impact over the 2 years in excess of £1/2m and the outer estimate exceeding £2.25m. Some of the loss in this funding could be offset by local economic growth.

5. In 2020/21, the Council faces a major loss of funding from the Government as Revenue Support Grant is expected to end for Hyndburn in that year. This will see the Council lose £1.5m of funding from the Government, the largest ever single year decrease

the Council has ever faced. Some of the decrease will be ameliorated by anticipated further growth in Business Rates of £1.5m less an anticipated £1m reduction due to the Fair Funding Review and £207,000 of predicted Council Tax income growth.

6. This reduces the loss of revenue to the Council in 2020/21 to just under £746,000 compared to the previous year of 2019/20. Cost pressures in 2020/21 stemming from expected further reductions in Government support for Housing Benefit and the impact of wage inflation and cost increases on the goods and services the Council purchases, are anticipated to rise by £520,000. These cost increases are expected to be offset by a forecast £500,000 reduction in payments connected to the Lancashire Pension Fund. This produces the need to generate a further £765,000 of saving in 2020/21.

7. The forecast for 2021/22 shows an easing on the financial pressures faced by the Council. With the ending of Government support to the Council occurring in the previous year, there is no further reduction in this source of funding and the Council's revenue is now dependent on Business Rates and Council Tax and these are both expected to grow in 2021/22 despite anticipated further reductions in Business Rate figures under Fair Funding compared to the previous year and give positive growth in overall revenues of over £318,000. Inflationary costs and likely changes around Local Authority Land Searches at a national level will see costs rise by a forecast £570,000, slightly outstripping our growth in income and leaving the Council needing to find around 2.5% in savings in that year to Balance its Budget.

8. Two further scenarios are provided in the following appendices to outline the potential range of values over the coming period, the first at Appendix 2 indicates the outer level of what the Council could face in a pessimistic future, while Appendix 3 shows an optimistic forecast based on many things going in the Council's favour over the next 3 years.

9. There is significant divergence in the financial predictions for the 3 years between the Pessimistic and Optimistic Models. The divergence between the Pessimistic and Optimistic Models in terms of annual savings that need to be identified is almost £2.5m in 2020/21 before reducing to £1.4m in 2021/22. The cumulative difference exceeds £3.9m 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 from 2020/21, the growth in local revenues, the future rate of inflation and pay settlements and pressures on Revenue and Capital spending. 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 Fair Funding Review announces its decision on the future amounts the Council can expect to receive from 2020/21 onwards.

10. The Pessimistic Scenario shows, in addition to a reduction of £100,000 in 2020/21 and 2021/22 on the Collection Fund Surplus, a major reduction in Business Rate income for the Council and Council Tax revenues flat lining over the 3 years. This would see income

levels reduced by almost £1.6m between 2019/20 and 2020/21 and further reducing in 2021/22 by another £166,000. The fall in Business Rate income is attributable to a difficult Government settlement for the Council stemming from the Fair Funding Review. The Pessimistic Scenario assumes the Government's new funding methodology will transfer away from the Council up to £1.5m of the Business Rates it is currently allowed to retain in 2020/21 and a further £750,000 the following year. Council Tax income is not expected to change between 2020/21 and 2021/22 in the Pessimistic Scenario and the lack of growth in numbers of properties and no increase to the amounts charged to individual households loses the Council £207,000 in 2020/21 and £422,000 in 2021/22.

11. As well as the sharp decline in income over this period the Council could face increased costs in 2020/21 and 2021/22 from higher inflation, the need to contribute resources from its Revenue Budget to fund Capital expenditure and reduced savings on its payment to Lancashire Pension Fund.

12. The Optimistic Scenario sees increased revenues in the 2nd and 3rd years of the MTFS. The Optimistic model assumes the changes imposed on the Council from the Fair Funding Review are relatively modest at £300,000 in 2020/21 and £250,000 in 2021/22 and that growth from the local economy outstrips them. Revenue increases from Council Tax from both a growth in house numbers and a rise in the amount payable as well as a larger Collection Fund Surplus. The Optimistic Model also assumes that the changes to Land Search Service occur in such a way that it has a neutral impact on the

Council's Budget and that the reduction in payments to the Lancashire Pension Fund are towards the top end of the forecasts around what could be expected. Combining these factors produces a scenario in which the Council's revenues would actually exceed its expected expenditure in 2020/21 by almost £338,000 and 2021/22 almost £110,000.

13. Both 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.

14. The figures in Appendix 1 therefore remain our current best estimate of the likely financial position over the next 3 years. If the 2020/21 Local Government Settlement is adversely significantly different from the forecast in Appendix 1, the Council is unlikely to have sufficient time to implement a savings plan to balance its Budget in that year, as it could be required to achieve up to £1.4m of extra savings at short notice. In these circumstances, the Council would need to draw upon its Reserves to balance its 2020/21 financial position, while it introduced an emergency savings programme to ensure it could balance the 2021/22 Budget.

OBJECTIVES

15. 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,

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

ELEMENTS OF THE MEDIUM TERM FINANCIAL STRATEGY

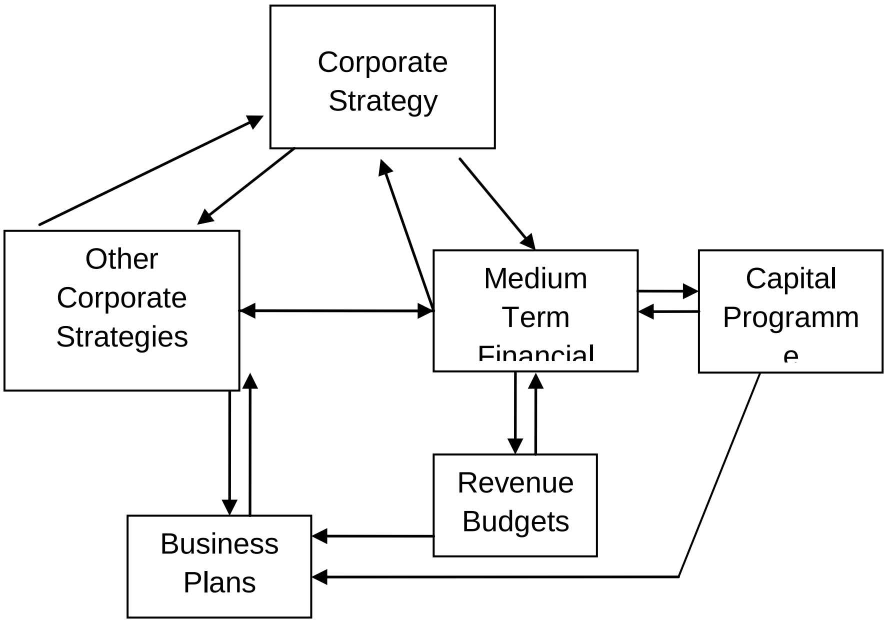
16. The key elements of the Medium Term Financial Strategy (MTFS) are:-

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 indeed are ways of balancing resources with any new commitment if potentially outside the

	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 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.

17. Strategy Hierarchy:-



Service planning to support overall strategy

18. 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.

19. 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.

20. 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 Appendix 1 and requires the Council to continue to make savings over the lifetime of the MTFS.

Integrated Resource Planning with Service Plans

21. 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

22. The MTFS covers the period from 2019/20 to 2021/22. It is 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. There are some indications that parts of the globe have recovered and are achieving sustainable positive economic growth but also contra indications of growing political and economic turbulence which could threaten another global financial crisis.

23. The financial recovery in both the US and the UK remains fragile and there remains a concern of a long period of stagnation before any meaningful real economic recovery is achieved. The uncertainty surrounding the UK economy has been further heightened by the Referendum vote to leave the EU.

24. Though the financial cliff edge Greece has faced over the last 10 years seems to have receded slightly in recent months, there remains continuing concern that Greece may not be able to meet its financial commitments and may not be able to continue with the Euro as its currency. If Greece defaults on its debts or exits the Euro there is concern this may lead to other Governments defaulting on their debts or leaving the Euro, all of which could create a long period of sustained economic uncertainty and a potential sharp downturn in European economies and potentially triggering a decline in the global economy.

25. The continuing unrest in Catalonia centred around independence from Spain has the potential to not only undermine the stability of Spain but to have implications for the political and financial strength of the European Union, thereby adding to the volatility in global economic markets and contributing to the circumstances which would create another recession.

26. Elsewhere, China and other nations are continuing to show strong relative growth compared to the West but with some indications the level of growth is slowing compared to recent years. There is also a continuing backdrop of increasing concern over currency rates and the potential escalation of these tensions into increased protectionism of national economies and the danger of trade wars emerging, which will further inhibit global recovery. The election of Donald Trump in the USA with a commitment to bringing jobs back into the USA from offshore and ending major free trade talks and agreements may add further to the volatility of the world economy.

27. The continuation of conflicts in Ukraine, Iraq and Syria, mass migration into Europe from Africa, the Middle East and other conflict zones, democracy protests in Iran, the Volkswagen emission scandal, heightened tensions in the Pacific between China and some of its neighbours over territorial claims, the fluctuating tensions between North and South Korea and recent volatility in the Chinese Stock Market are all contributing to nervousness over the potential extent of any sustained world-wide economic recovery. These concerns have been added to over the last 12 months due to the financial and political crisis in Venezuela and Argentina's need for a substantial bailout by the IMF given its economic problems and the level of debt it faces.

28. The large drop in oil prices over the last 5 years also causes some economists to express concerns over the future of worldwide economic growth and while the latest attempt by OPEC to cut output and force prices up appears to be enjoying some success, the

sustainability of limiting output is questioned by many commentators.

29. Against this backdrop Britain has emerged from Recession and has relatively good levels of growth compared with other major Western economies over the last 10 years. Employment continues to grow and is at new record levels, the pound has recovered against most major world currencies, wage demands remain reasonable and inflationary pressure appears to continue to be weak by historical standards. The recovery has however been achieved on the back of major reductions in public spending and a commitment that this may need to continue for at least a further 18 months or more.

30. The Brexit vote has also created a further large degree of uncertainty around Britain's ability to grow its economy going forward and this has been accentuated by the General Election Result in 2017, which left the Country with a minority Government and a period of difficult negotiations with the European Union and within Parliament over its exit from the EU and the terms of any future trade deals with it and the rest of the world.

31. Local Government and particularly District Councils have faced significant reduction in Government funding as a consequence of the global financial pressures and the Local Government Settlement announced in late December 2017 confirms the on-going reduction in

funding from Central Government to Local Government is continuing, with District Councils again suffering the most from these reductions.

32. The Government in the wake of the General Election of June 2017 has continued to indicate that it will continue with the previous funding of local government up to the end of 2019/20. This will see Hyndburn's Revenue Support Grant reduced by £500,000 in 2019/20 compared to the funding the Council received in 2018/19 from this source. This is a 25% reduction in Government funding to the Council compared to the previous year.

33. In line with previous Government announcements we expect that 2019/20 will be the last year that Hyndburn will receive Revenue Support Grant and therefore the Medium Term Financial Strategy shows no further funding of this type after 2019/20. The Council will therefore lose the final part of the original £7.1m funding from Government it was receiving in 2010/11 with the removal of the £1.5m in funding in 2020/21 compared to 2019/20.[1]

34. For 2020/21 and beyond the Government has indicated its preference to embark on a major review of local government finance.

[1] Hyndburn Council have indicated they will enter into a Business Rate Pooling arrangement with some other Lancashire Councils in 2019/20. If this goes ahead, technically the Council will lose its RSG in 2019/20, a year earlier than currently forecast. However, the Government's Pooling Scheme effectively replaces the lost RSG due for 2019/20 via additional Business Rate Income, so the overall financial impact is neutral. To ensure consistency of reporting between financial years, RSG is still shown as a separate amount, even though if the Pooling Arrangement is implemented, technically this money would come from Business Rates rather than from the Government as a Grant!

Previously our 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 none left to remove. However, a major review of local government finance could lead to a new redistribution model which might transfer away more of our resources via the Tariff methodology or some new mechanism the Government introduces. 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 in 2020/21 the Council would expect to see significant growth in its business rates going forward due to local economic growth. If the new model of funding was delayed a year, it is likely the new reset would substantially eat into the growth we expect in 2020/21 and this additional income would be lost to the Council in 2021/22 if the reset occurred in that year.

35. The Medium Term Financial Strategy assumes that the Council is able to deliver its 2018/19 Budget as planned. The Cabinet has requested that the Corporate Management Team continue to look to improve the position during 2018/19 to ensure value for money is being delivered across all services and further savings are made. The

[2] The reset is a tool used by Government to determine the baseline of business rates revenue for a given period. Once set 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 the previous growth figures and sets a new baseline.

Council currently predicts that it will achieve a surplus on its Budget for 2018/19. The General Fund Balance stands at £2.5m at the end of March 2018. This level of Reserve would normally be viewed as providing strong cover against the potential liabilities the Council faces. However, with:-

- 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 revenues decline,
- the need to incur upfront costs to secure long term savings,
- the potential political and economic instability stemming from Brexit

the level of Reserves at £2.5m can be viewed as just above the minimum level of provision in the much more volatile financial climate which we now face.

36. The format of the Medium Term Financial Strategy considers the current estimated resources available for 2018/19 and builds upon anticipated changes to income and costs over the following 3 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 2019, immediately ahead of the Council commencing the process of setting its Budget for 2020/21.

37. Despite the difficulties over the last 8 financial years caused by further reductions in our funding from Government, the Council has continued to maintain its finances and provide value for money services. Balances stand in excess of £2.5m and we have generated significant savings in each of the last 13 financial years and expect to manage our finances during 2018/19 to once more achieve an underspend. It is likely that any savings this year will be used to fund the achievement of future savings, capital spend and further investment.

Financial Analysis 2019/20 to 2021/22

38. 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

39. 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.

40. These changes have a high potential to significantly reduce the core funding of the Council in future years. 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.

41. These changes effectively signal a period of decline in the overall resources available to the Council over the period of the Medium Term Financial Strategy. More detail on the nature of the changes and their impact is provided below.

42. From 2020/21 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. Useful details are not expected until the late Summer or Autumn of 2019. Until that point, it is necessary to make broad assumptions over the level of our key revenue streams in addition to the loss of Revenue Support Grant after 2019/20.

Government Grant

43. The Local Government Settlement for 2016/17 further altered the funding allocations for the Council compared to previous years. In 2015/16 Hyndburn Council was receiving Revenue Support Grant, Efficiency Support Grant and Council Tax Freeze Grant, as well as Homelessness Prevention Grant, Housing Benefit Administration Grant and New Homes Bonus. From 2016/17, the Government has merged Efficiency Support Grant and Council Tax Freeze Grant into Revenue Support Grant so that the individual amounts can no longer be identified and reduced the overall funding by £722,000 or 16% in 2016/17 and this level of reduction has been rolled into the 2017/18 and 2018/19 settlement as a baseline, ahead of further reductions being made.

44. On the Revenue side of our Budget alone the total reduction in funding between 2015/16 and 2019/20 was £2.5m with a further £1.5m expected to be ended at the commencement of the 2020/21 financial year. This is shown in Table 1 below.

Table 1 Change in Government Support 2018/19							
Overall Change	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**Variance**	**Percentage Change**
HBC Revenue							
Revenue Support Grant	£ 2,312,430	£ 3,159,264	£ 2,446,543	£ 1,998,484	£ 1,498,991	-£ 813,439	
Efficiency Support Grant	£ 1,272,186					-£ 1,272,186	
Council Tax Greeze Grant Part 1	£ 78,146					-£ 78,146	
Housing Benefit Admin Grant	£ 605,143	£ 386,958	£ 351,860	£ 312,201	£ 274,531	-£ 330,612	
Homelessness Prevention	£ 35,339	£ 35,423	£ 35,483	£ 35,540	£ 35,750	£ 411	
HBC Government Support Revenue Total	£ 4,303,244	£ 3,581,645	£ 2,833,886	£ 2,346,225	£ 1,809,272	-£ 2,493,972	57.96%
HBC Capital							
Efficiency Support Grant Part 2	£ 223,435					-£ 223,435	
Coucnil Tax Freeze Grant Part 2	£ 106,814					-£ 106,814	
Coucnil Tax Freeze Grant 2015/16	£ 53,171					-£ 53,171	
New Homes Bonus Main Grant	£ 451,787	£ 639,204	£ 546,634	£ 321,587	£ 220,495	-£ 231,292	
New Homes Bonus Additional Grant	£ 10,564					-£ 10,564	
HBC Government Support Capital Total	£ 845,771	£ 639,204	£ 546,634	£ 321,587	£ 220,495	-£ 625,276	73.93%
HBC Total Government Support Change	£ 5,149,015	£ 4,220,849	£ 3,380,520	£ 2,667,812	£ 2,029,767	-£ 3,119,248	60.58%

45. The overall loss in Government funding over the period is however greater as our previous practice has been not to use all Government funding for Revenue purposes with some elements of Efficiency Support Grant, Council Tax Freeze Grant and all of New Homes Bonus being used to support the Capital Programme[3.]

46. Funding of the money we used to finance Capital Spend is down £625,000 or 73%. The impact of Capital Funding within the MTFS is dealt with later in the report. When the impact of the funding on Revenue and Capital are combined the analysis shows the Council has lost almost £3.1m of resources from the Government between 2015/16 and 2019/20, which is 60% of the funds the Government had previously made available.

[3] This was done to remove the dependency on Government Funds that were considered to be time limited and avoid building into the Revenue Budget additional spending which would subsequently be removed and thereby create further funding pressures once withdrawn by the Government. Using these “extra” funds from the Government for Capital purposes allowed us to finance key capital projects.

47. The latest local government financial settlement figures indicate the lowering of Revenue Support Grant to the Council by £500,000 from £2m in 2018/19 to £1.5m in 2019/20 and the continuation of the policy that will see this funding completely removed by 2020/21. Table 2 below shows the Council has lost £3.16m of Government Grant since 2016/17. Overall the Council has lost £7.1m in Government Grant since 2010/11.

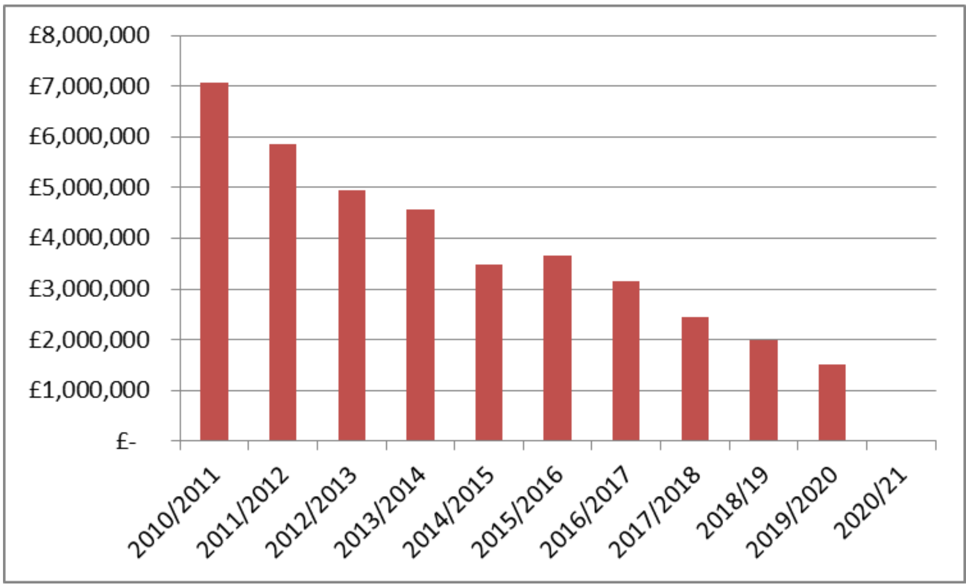
Table 2 Change in Revenue Support Grant 2016/17 to 2019/20

Year	Revenue Support Grant	Change	Percentage Change	Cumulative Change	Culumative Percentage Change
2016/17	£ 3,159,264.00				
2017/18	£ 2,446,543.00	£ 712,721.00	23%	£ 712,721.00	22.56%
2018/19	£ 1,998,484.00	£ 448,059.00	18%	£ 1,160,780.00	36.74%
2019/20	£ 1,498,991.00	£ 499,493.00	25%	£ 1,660,273.00	52.55%
2020/21	£ -	£ 1,498,991.00	100%	£ 3,159,264.00	100.00%

48. This reductions from Government has been significant since 2016/17 at over £713,000 in 2017/18 and £448,000 in 2018/19, with a drop of £500,000 in 2019/20 and a final drop in 2020/21 almost equal to the full value of all the 3 years prior reductions.

49. The total reduction in core Government funding for our Revenue Budget since 2010/11 is shown in the diagram below. This shows a drop from just over £7m in 2010/11 to zero by 2020/21.

Table 3 Reduction In Government Funding to Hyndburn Council 2010/11 to 2020/21



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the Fair Funding Review also have the potential to impact at least as dramatically.

Business Rates

51. In addition to the substantial alterations to local government funding 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”.

52. The new system from April 2013 attempts to allow Councils to retain the business rates raised locally. However, the implementation of the new system significantly altered 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 Fire and Rescue Authority, leaving Hyndburn with only 40% of the locally raised business rates. The 40% remaining 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 determined 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.

53. As a consequence, Hyndburn which raises around £20m in Business Rates each year is only allowed to retain about £4.0m (20%) from this source of funding.[4]

54. 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. It has however announced a Pilot scheme to transfer 75% of business rates in some areas. Hyndburn along with a number of other Lancashire Authorities have submitted a bid to be a Pilot Council for 75% Business Rate Retention for 2019/20.

[4] This figure is on a like for like basis with previous years and ignores the impact of the adjustment to Business Rates for Revenue Support Grant as a consequence of Pooling.

55. Since the June 2017 General Election, the Government has concentrated more of its announcements around a Fair Funding Review of Local Government Finance that it intends to have active for the 2020/21 financial year.

56. Any such review is likely to be fraught with difficulties and there have been many unsuccessful attempts over the last few decades to reform local government finance all of which have failed and this latest attempt must be considered as likely to be delayed or abandoned as it is to be implemented by 2020/21.

57. This therefore creates significant uncertainty for the Council around its Medium Term Financial Strategy in its second year of 2020/21. The Council already faced the strong prospect that it would lose all of its remaining Revenue Support Grant in 2020/21 from the statements previously made by Government and it now faces the additional risk that another of its sources of income could be threatened if the Fair Funding Review redistributes existing resources in a different manner to that done currently.

58. There is no clear basis on which to currently estimate the level of change the Council will face from the Fair Funding Review. If the Government attempts to address the often-highlighted severe underfunding of Adult and Children's Social Care by only redistributing funds between councils and not making any new money available, District Councils will face a huge reduction in their available resources of possibly 20% or more (and this still might not plug the gap in Counties and Unitary Authority finances) and this is the approximate figure we have modelled in our Pessimistic Scenario

below. If the Government uses a mixed funding bag of switching resources from District Council and new money it is possible the reduction faced by District Councils would ease to around 15% and this is the approximate figure, we have used in our Standard Model within the MTFS. Some commenters have indicated that a 15% reduction in resources available to District Councils is not sustainable and this would force many such councils to the brink of insolvency and therefore the reduction the Government could impose can not be so severe and that it is unlikely that anything more than a 5% reduction will be imposed. This is therefore the figure used in the Optimistic Scenario. 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 2020/21 Budget and so the assumptions used are 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.

59. The current system is designed to encourage local Councils to benefit from economic growth in its local area and therefore currently Hyndburn can benefit from local economic growth that increases business rates within its borders. The growth is split 50:50 with the Government, unless the Council enters into a Pooling arrangement for business rates with other Councils in which case it can retain up to 100% of the growth locally, though at this stage very few councils have been granted the opportunity to retain 100% of business rate

growth.[5] If this practice of allowing councils to benefit from business rate growth continues after the Fair Funding Review, the Council could benefit substantially from increased business rate income in 2020/21 and beyond due to the expansion of local investment in the area.

60. The current system while providing a vehicle for local Councils to potentially benefit from growth in the local economy also has transferred the financial risk of declining business rates to local Councils and a local Council that was seeing local business premises close or move away from their local area would suffer declines in revenues. As well as closures, local councils are also facing the financial consequences of large-scale business rating appeals, where businesses claim their properties have been valued too highly for business rating taxation purposes and they require a re-assessment leading to a lowering of the amount of tax they have to pay. Successful appeals lead to both a lowering of the amount of business rates we can collect locally going forward and therefore to a lower amount of resources for the Council to spend and for the need to recompense businesses for previous "over charged" years reducing further the sums that can be deployed to finance local public services.

61. The current estimate for 2019/20 of Business Rates income for the Council is £4,082,000. This is up from £3,964,000 in 2018/19 but largely reflects the increase in the chargeable amount to be paid due

[5] The downside to Pooling arrangements are that outside of a Pool, the Government guarantees every local council a minimum of 92.5% of their baseline funding, once a Pool is formed this guarantee is ended and Councils run the risk of being financially worse off if their business rates income plunges.

to inflation rather than any substantial growth in the local economy. This would seem to indicate that despite a number of companies expanding in the local area the value of successful appeals and business closures is offsetting this growth, leaving the Council with no practical benefit from the additional investment that is currently taking place.

62. The assumption over the following two years within the MTFS is that Hyndburn does start to benefit from economic growth and there is an assumption that the local economy will expand and this will produce growth of around £1.5m in Business Rates income to the Council in 2020/21 and a further £500,000 in 2021/22 along with a general inflation increase of 2% in each of these years. The speed of developments will be crucial in achieving this level of increase and this will need to be carefully monitored over the next 3 years to ensure the income is arriving as forecast.

63. While for financial forecasting purposes it is assumed that Business Rate income to the Council will increase over the period between 2019/20 and 2021/22, it is possible that it could move in either direction, positively for the Council if local businesses continue to grow and appeals on business rates are largely unsuccessful. Or negatively, if the local or national economy weakens or appeals on business rate values are largely successful. This is covered in detail later in the report on the section on the various financial scenarios the Council faces.

64. The negative impact from a declining economy is currently viewed as less likely to occur given the signs of local business expansion and

investment, as well as the United Kingdom's recovery from the Recession. However, world markets remain volatile and there are a small but significant number of warnings in the financial press of the dangers of another major contraction in the global economy.

65. The dominant threat to Business Rate Income is from the Government's Fair Funding Review. This Review is examining how funds are distributed between local councils from all the money available. It is due to report at some point over the Summer or Autumn of 2019, ahead of the announcement of the financial settlement for Councils in December 2019 for the following financial year 2020/21. It is also expected that this Review will map out future levels of funding for local government over a number of years. With the core amount of funding for local authorities unlikely to change, it is expected that to meet the funding crisis in Adult and Children's Social Care, there will be a significant redistribution of funds from District Councils to those responsible for Social Care. Given these circumstances it is anticipated the Government's Fair Funding Review will look to reduce the amounts Councils such as Hyndburn retain by a substantial amount.

66. As indicated earlier in the report the Standard Model assumption is a loss of up to £1m in 2020/21 followed by a further reduction in 2021/22 of £500,000. In the Pessimistic Scenario we have assumed a £1.5m loss in 2020/21 followed by a further reduction of £750,000 in 2021/22. The Optimistic Scenario assumes a reduction in the first year of £300,000 followed by a further £250,000 in 2021/22.

Council Tax

67. 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 above inflation rises from significant growth in housing numbers and will have to delivered more efficiencies instead to maintain its Balanced Budget position.

68. Now faced with the loss of all of its funding from Government over 2019/20 and 2020/21, the Council needs to look to increases in Council Tax to partly fill the gap. The Medium Term Forecast therefore assumes the Council will take advantage of the Government's major shift in policy on Council Tax increases. Previously the Government attempted to ensure Council Tax was not raised at all and provided additional funds to Councils who set 0% increases. Now the Government has signalled it expects Councils to raise Council Tax by 3% and it adjusts its forecasts of public spending on this basis.

69. The MTFS therefore assumes an overall growth of around £207,000 in 2019/20 compared to the previous year from a combination of an

increase in Council Tax, housing growth, the introduction of an Empty Property Tax Premium of 200% and improved collection rates. In each of the following years Council Tax Revenue is forecast to grow by 4% from a combination of an increase in the standard charge and expansion of the numbers of properties subject to the tax. Most of the growth in Council Tax Revenue in 2019/20 is committed to assist the Council address the financial issues caused by Lancashire County Council's withdrawal of funding for Recycling in 2018/19, which caused Hyndburn to lose over £820,000 of income to support its work.

70. It is not expected that Council Tax income will decline over the coming period, but the Pessimistic Scenario reflects no increase in the overall value of taxation raised from this source in 2020/21 and 2021/22. If the household charge for Council Tax does not increase in 2020/21 and 2021/22, the Council loses around £150,000 per year in income it could generate. Due to the cumulative effect, this reduces potential income in 2021/22 by over £300,000. This lack of growth in the largest area of Revenue the Council currently has, places the Council under additional financial strain going forward.

71. The Optimistic Scenario shows a more buoyant second and third year in terms of Council Tax income with a £53,000 of extra income stemming from developments etc. in 2020/21 and a further increase in Council Tax of £111,000 in 2021/22. 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.

72. The Collection Fund Surplus is anticipated to be in line with previous predictions at around £200,000 per year. The Pessimistic Scenario sees that level of surplus funds halved while the Optimistic Scenario increases the surplus by £50,000.

Expected Loss of Income

73. As part of its proposed reforms to the national Benefits System the previous Coalition Government announced 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, as least for those of working age and as such the Government is substantially reducing the amount it pays local councils to undertake this work and the subsidy paid to reimburse council's for benefit paid out 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 therefore the MFTS adjusts the loss of this income over the next three years to £120,000 per year. The Pessimistic Scenario recognised the potential for both the administration and benefit elements loss of income to the Council to increase by £80,000 per year in 2020/21 and 2021/22.

Changes in Costs

Salaries Costs

74. 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. Since 2010 wage increases have been limited to 1% or below, but the 2018/19 wage settlement for local government employees encompassed a 2 year deal at 2% for most employees with additional increases above 2% for those staff on the lowest wage bands. Upward pressure beyond the 2% level over the next few years is not expected as the economy still remains in recovery mode and the Government continues to exert significant pressure to contain public sector wage settlements at or below the 2% mark. With inflation remaining around 2% to 3% annually and continuing fears over job security and redundancies and an excess of supply of labour despite record numbers in employment it is unlikely industrial action will force higher increases than those we have seen over the last few years. 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

75. 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 the current 2-year deal runs out in 2019/20 are 3% rather than 2%. Given that resource levels are likely to shrink 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.

76. 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 2019/20 and it is assumed the small impact can be accommodated within existing budget projections at this time.

Pension Costs

77. A new Triennial Review of the Pension Funds was completed in 2016/17 and implemented at the start of 2017/18. Pension costs are therefore not expected to increase over the period covered by the Triennial Review (up to April 2020) except in line with the small increase in the overall wages bill and therefore are considered negligible.

78. Historically the Council has faced increased employer's contributions when the new rates are announced by the Actuary. However, the Council has taken a number of steps to stem the tide of increased costs over recent years including, stopping expensive redundancies and retirements and always ensuring a strong business case exists around any exit, paying contributions at a higher level than required by the Actuary and making one-off additional contributions into the Pension Fund whenever it could do so. This has ensured the Council

has not incurred additional costs from the most recent Triennial Revaluations.

79. It is now anticipated that the tackling of our long term pension deficit costs by this pro-active steps outlined above will finally remove the deficit the Council has faced in this area for over 20 years and that the next Triennial Revaluation exercise which is due to commence in April 2019 and be enacted in April 2020 will confirm that the Council's investments in the Pension Fund now exceed the liabilities it faces and it has paid off all its outstanding liabilities. If this is the case it is expected that the Council's contribution can be reduced permanently by £500,000 per year from 2020/21. The exact amount of the reduction will not be known until the Actuary completes their work in 2019 and reports to the Council in the Autumn of 2019 and so the value is subject to revision over the next 12 months. The Pessimistic and Optimistic Scenarios allow for the current predicted amount to vary by a less favourable amount of £250,000 or a more favourable reduction of £300,000.

80. The potential reduction of £500,000 to our core costs in a year in which we face a major reduction in Government funding is a major bonus to the Council and an important reward for taking tough decisions in previous years around redundancies and retirement packages and committing scarce resources to reduce liabilities. The dividend from these decisions are a strategic shift in our cost base similar to that achieved by taking hard decisions around repaying debts and not borrowing to finance expenditure.

Supplies and Service Costs

81. General inflation over the past 12 months has continued to fluctuate most recently peaking above 3%, before declining towards 2.0% and then showing signs of increasing once more. Within the last few years we have had negative inflation and the accurate forecast of future rates remains difficult to predict. There are a variety of upward pressures across the globe driving inflation in one direction, while other pressures continue to contain and push it downward. The fragility of the economic recovery in the major Western Economies, the Brexit Vote and the sharp drop in sterling and the growing power of the dollar all indicate a continuing period of instability.

82. While inflation appears to be up slightly compared to the period before the Referendum, there still appears to be significant capacity in the market place to resist price increases and therefore the probability of large rises in inflation remains weak.

83. Predicting the level of general inflation in the economy remains therefore a major challenge and one fraught with uncertainty. The MTFS therefore assumes inflationary pressures of around £130,000 per year over the next 3 years, while recognising the potential for this figure to double in the Pessimistic Scenario. Additional inflationary pressures around ICT costs of £50,000 are incorporated into the 2019/20 Budget

to reflect large increases in software license costs and the increasing cost of communication pricing across the Council. It is also anticipated that the Government will continue to drive forward its proposed changes to Land Searches in connection with property sales and while it is difficult to fully estimate at this time it could cost the Council up to £50,000 in 2021/22 from lost income and operational changes. The Optimistic Scenario assumes the Government's changes are not introduced in 2021/22 or that if they are introduced, they can be implemented in a manner that is cost neutral to the Council.

Capital Costs

84. The Council has over the last 11 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.

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

86. External Funds continue to be less in abundance and this will further restrict the amount of capital works we will be able to undertake. It should however remain possible to secure some external funds to deliver specific projects.

87. 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 2021/22 if expected capital receipts arrive over this period.

88. The Strategy assumes a continuing commitment to limiting financial spend to a modest programme with only the highest priority capital projects receiving approval to proceed. It also assumes we will 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.

89. This will enable us to escape the need to borrow over the period of the MTFS and we will therefore not increase our debt burden over the next 3 years.

90. 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 tax payers with an increased legacy of debt and interest payments.

91. Current predictions indicate the Council only just has an excess of potential receipts over the next 3 years compared to a programme of expenditure of £1m per year and 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.

92. The Pessimistic Scenario deals with the impact of having to fund Capital Expenditure from Revenue by £250,000 in 2021/22. This could occur if the Council is unable to limit its capital expenditure commitments to less than £1m 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

93. With the current intense pressure around generating savings, no allowance has been made for additional finance within the MTFS for growth. Any such bids for new items of expenditure would need to be considered very carefully as they would add pressure to the savings target in any year that they are proposed and would lead to further reductions in expenditure in other areas of Council funding as this would be the only means to fund them.

Reserves

94. Over the last 13 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 2018 of just over £2.5m. This level of Reserve would normally be viewed as healthy given an overall spend of around £11.2m in 2018/19, coupled with a prediction this level of spend will decrease over the next few years. 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 at this time to meet any major challenges which might occur over the next 3 years, which could not be dealt with via the normal budgetary process.

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

- the proposal by the Government to conduct a Fair Funding Review and implement its findings in 2020/21, 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 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 therefore supress fees the Council earns from providing services to the business 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 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 recession

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

- the threat that Central Government will pass fines from Europe directly to Councils if the UK fails to meet its targets on climate change and environmental improvements.

- 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

96. 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.

97. It assumes that any draw down of reserves 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.

98. 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

99. 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

100. 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 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.

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

102. In terms of income the Pessimistic Scenario indicates that revenue could be down on Council Tax, Business Rates and the Collection Fund surplus in 2020/21 and 2021/22.

103. The Pessimistic Scenario when compared to the Standard Model shows income down from £10.2m to £9.4m in 2020/21 and down from £10.5m in 2021/22 to £9.2m. This is due to larger amounts of the Council's Revenue being transferred away from it under the Government's Fair Funding Review, a decrease in Council Tax Revenue due to a lack of growth and lower levels of surplus on the Collection Fund.

104. There are no indications as yet of the likely revisions to local council funding from the Government's Fair Funding Review and these are not likely to emerge until late Summer or Autumn 2019. However, the Government has made it clear that extra money is not on offer and that the Funding Review will be about addressing the division of existing resources in a different manner between Councils. There is therefore a general expectation that the Government's Fair Funding Review will look to substantially transfer funds towards Adult and Children's Social Care and that will see major reductions in funding for other parts of local

government which do not provide these services. As the figures needed by Social Care Councils to balance their current Budget demands are so great and District expenditure relatively small compared to these demands there is a possibility that non Social Care Councils will face major reductions in their funding.

105. To provide some figures in order to allow the magnitude of the possible changes that could impact on the Council, it has been assumed the Government reduces the amount the Council can retain from Business Rates by £1.5m in the first year 2020/21 and a further £750,000 in 2021/22

106. The Pessimistic Scenario also assumes that the Council is unable to grow its Council Tax Revenue over this period. This would involve not increasing the amounts paid by households each year and no growth in the overall number of properties.

107. Overall this would see the Council with £800,000 less resources in 2020/21 than expected and a further reduction in revenues of £1.3m compared to the Standard Model in 2021/22. This level of reduction would put the Council under severe financial pressure.

108. The impact of funding from the Department of Work and Pensions in relation to Housing Benefit Grant is shown to be £80,000 more expensive in years 2 and 3, as the programme to implement Universal Credit accelerates and the Council loses higher amounts of both administration grant and repayment of benefits.

109. In our Standard Model we have assumed a 2% pay award over each year of three years of the forecast. The Pessimistic Scenario allows

for a 3% 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 £125,000 per year to our costs over these years. The potential for these types of pay awards has increased with the Government announcing larger pay rises for key public sector workers over the last 12 months and this now being used by both trade unions and employees as a new yardstick for all public sector pay.

110. The threat however still remains that in an area which is seeing its income substantially decline and with no indications from the Government that it is willing to fund local government for public sector pay rises, wage settlements close to or exceeding the rate of inflation are likely to lead to redundancies.

111. 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 each of the next 2 years beyond 2019/20. Additional costs of £50,000 are also added here in 2021/22 to allow for a budget adjustment to Land Search Fees, as the Government proposes to end the current arrangements in this area, which will lead to a net cost rise in the provision of this service.

112. The final factor considered in the Pessimistic Scenario is the need to finance part of the Capital Programme in 2021/22 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 2021/22 to fund its capital spend in that year. Current

estimates are that sufficient resources are available to fund capital expenditure through 2020/21. A figure of £250,000 has been added to the Pessimistic Scenario in in 2021/22.

113. The combined impact of all these potential changes are illustrated at Appendix 2 and show that the savings target for 2020/21 would rise by almost £1.4m to £2.1m compared to the Standard Forecast Model and to £1.3m from £261,000 in 2021/22.

114. 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.

115. 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 receive the extent of the loss of Business Rates under the Fair Funding Review until too late in the Budgeting process to allow it to develop meaningful savings proposals of the magnitude required to balance the Budget in 2020/21.

116. The Optimistic Scenario is presented at Appendix 3. The major assumption here is that the Government's Fair Funding Review allows the Council to retain more of its Business Rate income than it does under the Standard Forecast Model. The Optimistic Model forecast assumes

the Fair Funding Review only reduces the Council's Business Rate figure by £300,000 in 2020/21 and £250,000 in 2021/22 and not the £1m figure for 2020/21 used in the Standard Forecast Model for 2020/21 and £500,000 for 2021/22.

117. The Optimistic Model also assumes the Council will be able to boost its Council Tax income from growth above the level already predicted in the Standard Model via further increases in the number of houses, reducing the number of people claiming Council Tax Support, increasing the yield from reducing empty properties, improving collection rates and raising council tax levels. There is some indication that Developers are now returning to Hyndburn and planning applications are being discussed for new housing in a variety of locations. Again, assuming a high level of performance in all these areas it would be possible to boost council tax income by around £53,000 by 2020/21 compared to the Standard Model and by £111,000 in 2021/22 and for the Collection Fund Surplus to rise by £50,000 in each year.

118. These changes in Business Rates and Council Tax sees the Council able to fully replenish the loss of £1.5m in Government Grant in 2020/21 and increase its Resources in 2021/22 compared to 2020/21 by over £600,000.

119. Wage inflation and inflation in general supplies and services to the Council are expected to mirror the performance in the Standard Model over the 3 years with inflation only pushing up costs by 2% per year. The Optimistic Model however does assume that the changes to Land Search Service and Fees is either delayed until after 2021/22 or that the Council finds a way to adapt to the changes in a cost neutral manner, by either

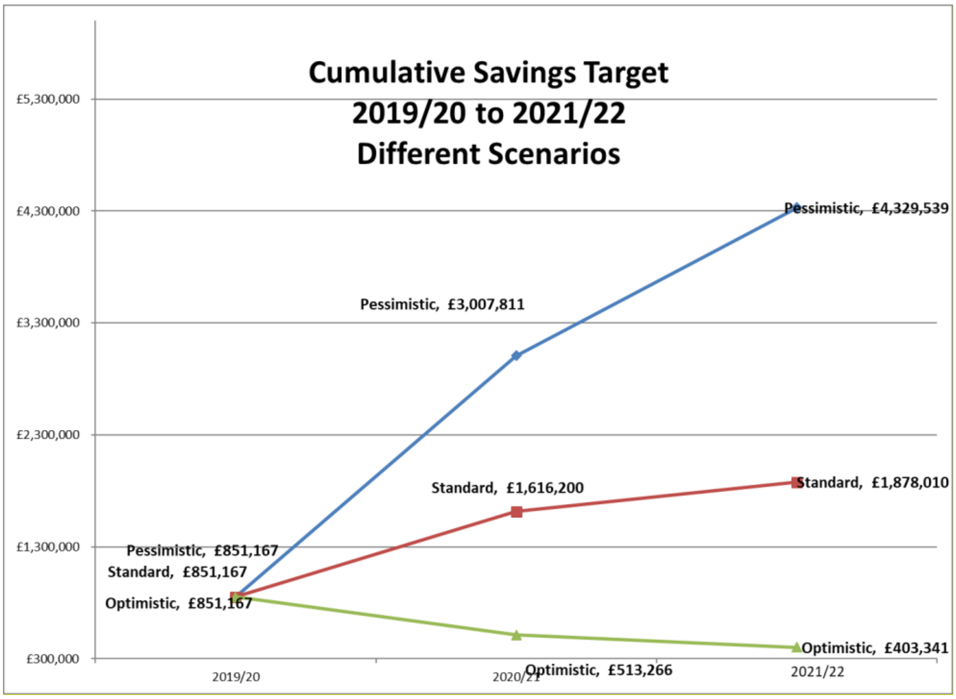
reducing costs or finding other sources of income in this area. This would remove £50,000 of financial pressure in 2021/22.

120. The Optimistic Scenario also assumes that the reduction in costs stemming from the repayment of the pension deficit is at the high end of the possible range of outcomes at £800,000 rather than the Standard Model prediction of £500,000. This reduces the financial pressures in 2020/21 by an additional £300,000.

121. The Optimistic Scenario considerably eases the overall financial position of the Council such that it is able to generate a small surplus in 2020/21 and 2021/22.

122. 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.

123. As stated earlier the most likely outcome the Council faces is the one shown in Appendix 1, with the risk of other overall positons diminishing as you move away from this central position. The diagram below shows the potential range from the most optimistic to the most pessimistic put forward in this document.



124. The Overall best prediction of the savings required for the next three years are those presented at Appendix 1 of the report. This requires £0.8m of savings to be generated in 2019/20 to balance the Council's budget with further savings of £0.8m required in 2020/21 and £261,000 in 2021/22. 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.

125. It is likely that the Council will encounter a mix of fortunes over the coming three years with some income and expenditure moving in a positive manner while others move negatively.

Robustness of Forecast

126. The robustness of the forecasts beyond 2019/20 is severely diminished due to the uncertainties around funding decisions stemming from the Government's Fair Funding Review. The potential range of outcomes for the Council is significant. 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.

127. 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.

128. It is expected that the uncertainty around these forecasts will disappear in late 2019 when the Government announces the details of the Fair Funding Review and at that point it should be possible to update the Robustness 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

129. The Council faces continuing pressure on its finances over the next 3 years. The reductions in the level of government grant for 2019/20 and beyond are significant and the Council will need to take tough

decisions over service provision to maintain a balanced budget in these circumstances.

130. Further the threat of a substantial reduction to the Business Rates it is allowed to retain locally, due to possible changes the Government could propose in its Fair Funding Review gives the potential for the Council to face severe financial pressure over the coming three years, which would equal if not exceed those faced since 2010/11.

131. 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.

132. 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 to improve its future financial position is around its Capital Programme. If the Capital Programme can continue to be self-financing over the period this will substantially ease the cumulative financial pressures on the Council over the 3 years of the MTFS and into the future.

133. 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 the Government's Fair Funding Review and it can plan ahead in a more stable environment.

Appendix 1

Three Year Standard Model
Medium Term Financial Strategy
2019/20 to 2021/22

		2019/20		2020/21		2021/22
Revenue Support Grant	£	1,534,000	£	-		
Business Rates Funding	£	4,082,000	£	4,663,640	£	4,756,913
Council Tax Collection	£	5,139,000	£	5,346,327	£	5,561,244
Collection Fund Surplus	£	200,000	£	200,000	£	200,000
	£	-	£	-		
Total Resources	£	10,955,000	£	10,209,967	£	10,518,157
Prior Year Spend	£	11,236,167	£	10,955,000	£	10,209,967
Adjustments to Prior Year						
HB Admin & Subsidy	£	120,000	£	120,000	£	120,000
Waste Services Lost of Cost Share						
Salaries & Pension Costs	£	270,000	£	270,000	£	270,000
General Supplies & Services	£	180,000	£	130,000	£	180,000
Revenue Contributions to Capital Spend	£	-	£	-		
Pension Deficit Cost Reduction			-£	500,000		
Growth Items						
Estimated New Operating Costs	£	11,806,167	£	10,975,000	£	10,779,967
Costs Exceed Resources by	£	851,167	£	765,033	£	261,810
Percentage Savings to Balance Budget		7.58%		6.98%		2.56%

Appendix 2

Three Year Pessimistic Model
Medium Term Financial Strategy
2019/20 to 2021/22

		2019/20		2020/21		2021/22
Revenue Support Grant	£	1,534,000	£	-		
Business Rates Funding	£	4,082,000	£	4,163,640	£	3,996,913
Council Tax Collection	£	5,139,000	£	5,139,716	£	5,139,716
Collection Fund Surplus	£	200,000	£	100,000	£	100,000
	£	-	£	-		
Total Resources	£	10,955,000	£	9,403,356	£	9,236,628
Prior Year Spend	£	11,236,167	£	10,955,000	£	9,403,356
Adjustments to Prior Year						
HB Admin & Subsidy	£	120,000	£	200,000	£	200,000
Waste Services Lost of Cost Share						
Salaries & Pension Costs	£	270,000	£	395,000	£	395,000
General Supplies & Services	£	180,000	£	260,000	£	310,000
Revenue Contributions to Capital Spend	£	-	£	-		
Pension Deficit Cost Reduction			-£	250,000		
Contribution to Capital Send					£	250,000
Growth Items						
Estimated New Operating Costs	£	11,806,167	£	11,560,000	£	10,558,356
Costs Exceed Resources by	£	851,167	£	2,156,644	£	1,321,727
Percentage Savings to Balance Budget		7.58%		19.69%		14.06%

Appendix 3

Three Year Optimistic Model
Medium Term Financial Strategy
2019/20 to 2021/22

	2019/20		2020/21		2021/22	
Revenue Support Grant	£	1,534,000	£	-		
Business Rates Funding	£	4,082,000	£	5,363,640	£	5,720,913
Council Tax Collection	£	5,139,000	£	5,399,261	£	5,671,913
Collection Fund Surplus	£	200,000	£	250,000	£	250,000
	£	-	£	-		
Total Resources	£	10,955,000	£	11,012,901	£	11,642,826
Prior Year Spend	£	11,236,167	£	10,955,000	£	11,012,901
Adjustments to Prior Year						
HB Admin & Subsidy	£	120,000	£	120,000	£	120,000
Waste Services Lost of Cost Share						
Salaries & Pension Costs	£	270,000	£	270,000	£	270,000
General Supplies & Services	£	180,000	£	130,000	£	130,000
Revenue Contributions to Capital Spend	£	-	£	-		
Pension Deficit Cost Reduction			-£	800,000		
Growth Items						
Estimated New Operating Costs	£	11,806,167	£	10,675,000	£	11,532,901
Costs Exceed Resources by	£	851,167	-£	337,901	-£	109,925
Percentage Savings to Balance Budget		7.58%		-3.08%		-1.00%