MEDIUM TERM FINANCIAL STRATEGY 2010 to 2013

Purpose

1. The purpose of a Medium Term Financial Strategy (MTFS) is to set the financial framework for the Council for the medium term, considering the Council's strategic objectives and major projects. This includes the impact on revenue budgets, capital programme, reserves and potential future Council Tax levels based on funding projections and assumptions.

2. The Council is continually improving its approach to medium term planning and the MTFS is very significant in setting out the projected high level financial position and the strategic choices, risks and opportunities facing the Council.

3. The MTFS forms a key link between financial and business planning, both reflecting and influencing the key plans of the Council, including the Performance Agreement, the Sustainable Community Strategy and other plans such as the Medium Term Property Strategy, Asset Management Process, ICT Strategy, Treasury Management Strategy, Carbon Management Plan and the Organisational Development Strategy which is now included in the new transformational workforce strategy. The Capital Strategy is, in addition, embodied within the MTFS.

4. Whilst the previous MTFS was prepared on the basis of a fairly stable financial environment, this revised MTFS looks to a future which is more uncertain than in previous years. Globally the major economies are beginning to emerge from a severe recession, with the UK economy returning to growth in the last quarter of 2009. Many national governments are facing financial public sector deficits as a result of both falling tax revenues and rising expenditure not least as a result of actions taken to mitigation the worst impact of the recession. The government of this country has published plans to reduce the fiscal deficit over the medium term as the economy returns to growth. Thus the public sector, including all local authorities, is facing financial settlements that are less generous than in previous years. It is widely expected that reductions in public sector expenditure will occur.

5. Because of this, it is essential that this Council puts in place robust plans for the medium term, and considers alternative scenarios. All councils will need to consider early their own priorities, including those services that require further investment, those they wish to maintain at current levels as well as those that are not as great a priority. This Council has currently five main priorities. These are:

   - improving public health and well-being
   - Improving your neighbourhood
   - Improving the economy
   - achieving first class services
   - delivering a “fit for purpose” organisation

In recent years this Council has been successful in meeting priorities, through major initiatives and partnerships. It has been particularly successful in attracting external funding. In a harsher financial climate, the Council will need to review its priorities. The council is committed to consulting with its residents, businesses, stakeholders and partners. Work has begun on a new 2030 vision. The Council has also consulted when setting its council tax. This MTFS aims to focus scarce resources on key priorities which have emerged following public consultation.

Financial Outlook

6. The financial outturn for 2008/09 and latest forecasts for 2009/10 indicate that spending pressures continue across a number of service areas, with Children's services being affected particularly. However the new contracts for electricity are considerably less than was being forecast this time last year, but this remains a volatile area. The three year budget forecast has been adjusted to take account of these changes.

7. This MTFS is being prepared against the backdrop of a severe economic recession, although there is some optimism for improvement. There will be continuing impact upon businesses and citizens of the borough which the council will need to respond to. The council's strategy will be to prepare a budget that will help support hardship whilst ensuring jobs and businesses are protected as much as possible.

8. Some key areas for consideration into the medium term therefore include:
    a. level of Council reserves expected
    b. continuing pressures across demand-led services
    c. full year cash flow implications of major capital schemes
    d. waste

Priorities

9. As a unitary authority there are many competing priority areas across the service portfolios. The challenge for the Council is to determine, within given financial constraints, the key investment priorities and the services for review, either in terms of potential reduction in service levels, through business process redesign or by transforming the way in which services are provided within the borough with options which could include some transition from the Council being a service provider to a commissioner of services, and ensuring the ongoing availability of sustainable and accessible, inclusive services.

10. The borough has five Area Agency Partnerships, as part of the Local Strategic Partnership (LSP), based upon the neighbourhood co-ordination areas. These partnerships bring together public, private and community and voluntary sector organisations to identify priorities and deliver activities to meet the Council's Local Area Agreement. Each partnership has to produce a plan for their neighbourhood area based on consultation with residents on local issues and through the LSP Theme Groups. The plans will change over time as priorities are addressed and new issues emerge. Neighbourhood Boards have been established during 2008/09 linking in to the Area Agency Partnerships. The

Council will build a degree of flexibility into the MTFS to respond to these changing priorities and to target resources to areas of greatest need.

Principles

11. The Council's MTFS is underpinned by the principles of:

- periodic consideration to reprioritisation and realignment of existing resources between and within portfolios to ensure delivery of the Council's key priorities
- focus on customer care and high quality services
- valuing employees
- managing future Council Tax levels and increases to reflect central government indications and local circumstances
- sound financial management, adhering to best practice
- devolved budget management to Executive Members (with portfolio) and service Directors
- retaining adequate reserves based on risk assessment and local experience and knowledge
- continually striving to maintain excellent inspection ratings under the wider (organisational) Comprehensive Area Assessment (CAA), reviewing all services' spending to demonstrate value for money in line with stated priorities and identified need and achieving a good score for Use of Resources through continuous improvement
- identification of ongoing efficiency savings (cashable and non-cashable), to redirect into front line services
- continuing to seek to maximise appropriate local and external funding sources, whether through grants, additional income or partnering opportunities
- planning for and managing change, whether related to need, demand for services, technological advances, legislative, local aspirations or resource allocation
- good risk management and corporate governance within the authority and throughout our partnership arrangements
- recognising that in order to deliver the above, sufficient resources are made available to support services
- pursuing innovative partnership working arrangements where this will deliver improved services and/or efficiencies

12. The delivery of the strategy over the medium term will depend largely on how successful the Council is in reprioritising services, realigning resources to meet its key priorities and delivering efficiencies. This may mean re-engineering the way in which services are provided or, indeed, who provides them.

13. There is also a dependency on the level of resources allocated by Central Government through the settlement in enabling the Council to meet its priorities whilst also meeting its objectives for Council Tax. 2010/11 is the third year of a three year settlement which has enabled the council to plan ahead with greater certainty. However, the Government has not published its next comprehensive spending review and its three year projections. Therefore there is considerable uncertainty about the level of reserves available in future years.

14. Members and officers are committed to successful partnership working, reflected in the existing partnerships with Capita and Hyndburn, closer working across Pennine Lancashire particularly on housing and economic development issues (including the joint building control service with Burnley), with NHS Blackburn with Darwen as we move towards the Care Trust Plus, the strength of the Local Strategic Partnership (LSP) and the Local Public Service Board (LPSB). Partnership working, where it can be effective and is in the best interests of service users, is to be considered as a potential option for other areas.

<u>National Considerations:</u>

15. Local Government Finance settlement

Two years ago the Government published provisional formula grant figures for 2010/11, which have also been confirmed. Settlement figures will not be available for 2011/12 and 2012/13 until the next comprehensive spending review (CSR10) due next summer. Given the current state of public sector finances, it is likely that there will be substantial reductions in the amount of funding available to support local government as a whole, although it is expected that Blackburn with Darwen's settlement may continue to be higher than the average, assuming the council's contribution to "damping" continues to reduce.

	2008/09 £000	2009/10 £000	2010/11 £000
Formula Grant	73,481	77,804	81,633
Increase		4,323	3,829
% Increase Year on Year		5.9%	4.9%
National Average		2.86%	2.6%
Contribution to the 'floor'		8.3m	6.8m

The table shows that overall this Council's increase in Formula Grant exceeds the National and Unitary Average. To an extent this reflects the Index of Multiple Deprivation (IMD) rankings as well as a reducing contribution to the 'floor'. Nationally, in order to fund the minimum increase to authorities on the funding 'floor', there is a 'damping' mechanism which smoothes changes in grant allocations over time. This will continue to reduce over coming years, and contributes to larger than average increases in formula grant for each of the two years as shown above.

Schools-related expenditure is funded by Dedicated Schools Grant. On the whole, schools received a good settlement with indicative figures shown below:

Indicative figures	£000	% increase
2008/09	102,409 #	
2009/10	105,235	2.8%
2010/11	109,673	4.2%

2008/09 allocation of £103,829k has been adjusted by £1,420k by removal of Darwen Moorland High School in order to provide a like for like comparison with the later years.

Final figures for 2010/11, which are dependant upon final pupil numbers, are expected to be announced in April 2010.

16. Efficiency Programme

The CSR 2007 intends that significant “cashable” savings will continue to be achieved, primarily from smarter procurement, better asset management and business process improvements. The Council’s target for 2010/11 is likely to be £7.63M.

The government is continuing to focus on the need for greater efficiencies over the medium term, and is promoting several shared service initiatives across the public sector as a means of achieving this. Blackburn with Darwen Council has a successful track record of working in partnership, with Capita particularly, and more recently with the Pennine Lancashire authorities and with NHS BwD.

17. Local Area Agreements (LAA) and Area Based Grant (ABG)

Area Based Grant (ABG) is expected to continue beyond 2010/11, but could see substantial reductions. This is a general grant, not ringfenced to services in any way. The grant is linked to LAA priorities and outcomes determined in agreement with the Local Strategic Partnership (LSP). The council is currently ringfencing those elements which have been committed through the LEGI (Local Enterprise Growth Initiative) programme, amounting to £6.060M in 2010/11. Supporting People grant has transferred into ABG from 2010/11, based on an allocation of £5.367M. The means of distributing this grant nationally from 2011/12 have not yet been decided. This therefore poses a risk to the council as the grant may be significantly redistributed nationally, as well as being reduced in real terms.

18. Adult Social Care and Health

The Adult Social Care Department already works closely with partners in NHS Blackburn with Darwen (NHSBwD) on issues such as rehabilitation and avoidance of bed blocking. The Council and NHSBwD are looking to establish joint strategies for commissioning of health care and are establishing a Care Trust Plus solely for the purposes of joint commissioning. An Integrated Care Partnership has also been established to take advantages of collaborative approaches to the provision of services. The commitment to closer working is shown by the co-location of significant staff and services.

19. Carbon Reduction Commitment

The Government is introducing this initiative in April 2010. It is a mandatory "cap and trade" scheme targeted at carbon emissions from large, non-energy intensive organisations. An energy consumption threshold will be set, and organisations are expected to purchase sufficient allowances to cover these each year. The intention is that the scheme will encourage investment in energy efficiency to reduce fuel costs and the cost of purchasing allowances. Payments should be recycled depending upon outcomes, but the distribution of recycled amounts will be dependant not only upon the performance of the Council, but also on how the council ranks amongst all the other organisations in the scheme. Whilst 2010/11 will be a base year, the first purchase of allowances will be in April 2011 (estimated £300,000), with recycling refunds being made in October 2011 based on 2010/11 performance. A net cost of £100,000 has been built into the contingency, reflecting good performance but also not assuming that the Council will be at the top of "the leader-board" in the first year.

20. Comprehensive Area Assessment (CAA) and Use of Resources (UoR)

CAA looks at how well local services are working together to improve the quality of life for local people. It will make straightforward independent information available to people about their local services, helping them make informed choices and influence decisions. UoR is an Audit Commission assessment of how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people. The assessment has been revised to meet the needs of CAA; it assesses use of resources in a broader way than previously, embracing the use of natural, physical and human resources. It also places new emphasis on commissioning services for local people to achieve value for money. The Council achieved an overall score of 3 for its UoR assessment in summer 2009 which means the Council is performing well.

21. Local Authority Business Growth Incentives (LABGI)

This scheme was introduced in 2005 allowing Councils to retain some business rate revenues resulting from growing the local tax base. The authority realised significant revenues from business rate growth amounting to £5M over the three year period covered. The scheme has, however, been reviewed, resulting in a very significant reduction in the amount of grant received (£66K for 2009/10). The amount available for distribution nationally is also expected to fall as a consequence of the recession.

22. Pensions

The Local Government Pension Scheme (LGPS) is administered by Lancashire County Council and actuarial revaluations are undertaken every 3 years. The last revaluation did not require the council to make any increases for the period

2008/09 to 2010/11. However, as a consequence of the credit crunch, the actuarial value of the pension fund is likely to have reduced, and increases in pension contributions may have to be significantly increased in the future. Amounts of £950,000 for 2011/12 and a further £1,065,000 for 2012/13 have been factored in to the MTFS. At that stage, however, there will still be 19 years of the planned recovery period over which to recover any pension fund deficits.

Local Context

23. The Performance Agreement clearly demonstrates the links to the LSP priorities set out in the Community Plan and Local Area Agreement (LAA), to the Council's strategic objectives and how the Council's corporate planning process, including this MTFS, is driven by these overarching priorities to ensure the vision is achieved.

The Policy Council last December agreed the strategic framework for the Performance Agreement and the key priority areas, as set out in paragraph 24 below.

24. *Council Strategic Objectives*

The council vision is supported by 5 strategic objectives which reflect what we are trying to achieve:

Outcomes / performance priorities
- Improving public health and well-being – "Living Better, Living Longer"
- Improving your neighbourhood – community engagement, community cohesion, environment, liveability/public realm, enforcement, community safety
- Improving the economy - delivering regeneration to tackle poverty, skills and worklessness

Organisational delivery priorities
- Achieving first class services: influencing, enabling and commissioning
- Delivering a "fit for purpose" organisation

This MTFS identifies investment in the Council's priorities. The Council will invest revenue resources to improve public health and well-being in:
- Commissioning of placements for vulnerable children and adults
- Commissioning of adult social care.

The Council proposes to invest in capital infrastructure. In addition to the new Darwen Leisure Centre the Council plans to:
- Continue to offer grants to undertake aids and adaptations to properties for adults and children with disabilities
- Continue to implement the local transport plan and road safety works
- Develop athletic facilities in Witton Park.

In the longer term the Council will consider the development of a retirement village and also the potential for new or improved leisure facilities in Blackburn itself.

The Council will continue to improve its neighbourhoods. It will invest in:

- Increasing costs of waste disposal
- Fully funding the costs of subsidised bus routes.

The Council will also invest in the capital infrastructure by:

- Facilitating the development of affordable housing in the borough
- Investing in highways works in Blackburn, Darwen and the villages in the borough
- Improving the environment by promoting the efficient use of energy in its own buildings and by disposing of its waste responsibly.
- Investing in its parks and green spaces
- Ensuring the crematorium complies with environmental legislative requirements.

The Council will improve the local economy. It will focus resources on:

- Supporting the visitor centre
- Marketing and promotional activities in the town centre when faced with grant reductions
- Creating apprenticeships, supporting business start-ups and offering facilities for new businesses.

It will invest in the capital infrastructure of this borough by:

- Completing the development of the new market and improved shopping facilities in the Mall
- Improving transport links around the town with a new link road and an improved bus interchange
- Investing in road and rail improvements between Blackburn and Darwen and neighbouring towns
- Facilitating the new developments in the cathedral quarter
- Improving the town centres and cultural facilities
- Enhancing educational facilities and opportunities for our young people.

The Council will strive to ensure that it achieves first class services. It will ensure that services are provided from accessible buildings which are maintained to a high standard. It will invest plant and equipment to deliver services of the highest quality and which offer value for money.

The Council will ensure that is a fit for purpose organisation, dedicated to meeting the needs of its local communities. To ensure that it delivers value for money services focussed on its customers it will invest in its systems, mainly its ICT systems.

25. *Links across other plans*

In developing budget options and financial planning, consideration also needs to be given to the Council's other corporate plans and strategies including the Capital Strategy, Treasury Management Strategy, Medium Term Property Strategy (MTPS) and Asset Management Plan, ICT Strategy, the Organisational Development Strategy and the newly developed Carbon Management Plan.

26. *Equality Impact Assessments*

The Council recognises the importance of undertaking equality impact assessments in relation to the most important decisions. In respect of this MTFS, key issues will include the proposals for town centre regeneration and waste disposal, and other key projects in the capital programme by way of the capital "gateway" process.

27. *Housing Market Restructuring (HMR)*

Five authorities across the East Lancashire sub-region currently benefit from significant HMR funding through the 'Elevate' pathfinder, one of 9 nationally. This funding will in future be included with other funding under the Multi Agency Agreement (MAA), and the establishment of the Regenerate Pennine Lancashire development company has now replaced Elevate. However, the future of the HMR programme will depend very much on the outcome of the Comprehensive Spending Review and the priority given by any new Government. The Council's plans reflect a scaling down of HMR activity over the coming years.

28. *What do people think?*

The Council has consulted widely with its residents, partners and stakeholders in recent years.

Last year, when the Council consulted its residents, it found that residents wanted to see improvements in community safety, street cleaning, fuel poverty, youth activities and environmental health. Residents however did not want to see reductions in street cleaning, fly tipping, community safety, youth activities and environmental health. Residents were prepared to see reductions in new business start ups, highways maintenance, neighbourhood boards, road safety and apprenticeships. Residents also told the council they would be prepared to see council tax increases of £3 per year above inflation to improve services.

This year, the Council consulted separately with the representatives of business community and community groups, with Trade Unions and with members of the public, some as a focus group and others through a questionnaire on the website.

The Council asked all participants:-

- Do you agree with the priorities and non priorities?

- Do you feel council tax increases should be lower than inflation or would you be prepared to see higher rises to protect services?
- Do you feel fees and charges should rise in line with inflation or would you be prepared to see higher rises to protect services?
- Do you feel the council could be more efficient? If so, in what areas?

Representatives of the business community, community groups, Trade Unions and the public all agreed with the Council's five key priorities. However, all disagreed with the non – priorities identified last year when setting Council Tax. All groups saw unemployment as a priority and wished to see more apprenticeships and new business start ups. Representatives of the business community and community groups asked the Council to support the community and voluntary sector during the economic recession and to set up longer term funding agreements. This group also welcomed the developments in the Blackburn and Darwen town centres.

The residents in the focus groups also requested that more facilities for young people be provided in all areas of the borough. They would be prepared to see reductions in neighbourhood boards and also had different views on road safety and highways. Those eleven residents using the website identified a range of priorities, including the environment, education, care, public libraries, sports facilities and swimming pools, sustainable development, social housing and street repairs.

No consensus emerged surrounding council tax increases. Some felt council tax increases should be lower than inflation. Others were prepared to see council tax increases above the current lower rate of inflation to protect services. When asked about increases in fees and charges, residents in particular felt that increases should not be higher than inflation, even to protect services, as such increases would hit those who couldn't afford to pay more.

All groups were asked if they felt the Council could make further efficiency savings. The majority in all groups felt further significant efficiencies were unlikely and the residents suggested that there are only so many efficiencies you can make before you start cutting services.

Some suggestions for further efficiencies were made. These included increasing co-ordination between services and reducing duplication, the review of managerial and administrative structures and processes, and members expenses and chief officer's salaries. Their suggestions also included reductions in neighbourhood boards and leisure centres.

The Council has taken the views of all the groups into account when preparing its budgets. It is moving towards achieving its priorities, whilst keeping council tax increases below inflation. The Council is focusing its resources on meeting the economic challenges facing this borough and improving the skills of its residents. The Council has also recently reduced managerial and administrative costs through its early retirement process, and members have foregone the recommended increases in allowances.

29. *Where should the 'business' be in 5 years?*

In its role as community leader, the Council considers how the organisation should be positioned to ensure and sustain future delivery of quality services. Considering quality and scope of provision of service, together with ensuring accessibility, availability and value for money, options are worked up around the Council continuing as service provider against alternatives such as taking a wider commissioning role and becoming more of an 'enabler'. This is reflected in the organisational delivery priorities in the Performance Agreement. For example, through the introduction of individualised budgets for service users with an emphasis on stimulating the development of preventative services as individuals make choices through 'In control' models of support for care services. Again, Adult Social Care is at the forefront of Departments placing a greater emphasis on commissioning and enabling.

Cost Pressures

30. *2009/10 Budget Monitoring*

Current budget monitoring indicates ongoing cost pressures in a number of areas, and particularly in Children's services, and there are income shortfalls as a consequence of the recession in some portfolios. Current year pressures have been contained largely as a consequence of significant reductions in gas and electricity prices as well as the efficient management of financial and human resources.

31. *Regeneration of the Town Centres*

A priority for the authority in the medium to longer term, there is the planned development of a new Blackburn market and the redevelopment of the shopping centre, development plans for the Cathedral quarter and the area around Blackburn College. This is likely to have a detrimental impact on revenue income streams which has been factored into portfolio budgets.

32. *Waste*

European Union legislation allotted member countries with permitted levels of waste that can be sent to landfill, identifying a reduction of 70% to the 1990 levels of waste by April 2020; authorities not utilising their allotted waste levels could trade with other authorities and vice-versa, under the terms of the Landfill Allocation Trading Scheme (LATS). Authorities exceeding the permitted levels can either buy credits from those authorities that are within their agreed levels or are levied with a £150 fine for every tonne exceeded. BwDBC is within its allotted limit for 2009/10 but will need to purchase credits from 2010/11 onwards. Unit prices are currently circa £10 each, but this is expected to escalate and in 2011/12 when the country as a whole will have greater demand than available credits the rise is expected to be significant.

Landfill costs consist of three distinct elements: the gate fee (the cost per tonne for physically dumping refuse on a licensed site), landfill tax and LATS for those tonnes in excess of permitted levels. The landfill gate fee has on average risen by 4% per annum; however, with the need to renegotiate the landfill contract for April 2010 and the current limited competition there is every likelihood that the cost will, from April 2010, increase above those rates previously experienced. Current UK landfill tax is set at £40 per tonne and will be escalated every year by £8 until and including 2013 when it will reach £72 per tonne; this series of escalation maybe subject to further increase in coming budgets.

The Council has plans to undertake a procurement exercise that will invite tenders for alternative waste disposal options, which may involve the Council building a facility for a contractor to manage, or to purchase a comprehensive disposal service. The capital programme, and associated revenue costs, have assumed a build and manage service for the time being, and the table below compares the costs of not changing with the costs of an alternative longer term solution.

	Existing procedures £000s	Alternative Option £000s
2010/11	2,850	2,850
2011/12	3,332	3,520
2012/13	3,848	4,410
2013/14	4,323	4,391
2014/15	4,598	4,467

33. *Car Parking*

The new multi-storey car park on Feilden Street in Blackburn will soon be opening, as well as the extended car parking on the Mall shopping centre. There may be some temporary loss of income from other car parks in the town as key sites are released for development, which could also be affected by the Blackburn markets redevelopment plans. Again, this is identified as a cost pressure to be managed within the Regeneration and Environment portfolio budgets.

34. *ICT*

The ICT Strategy developed following completion of the 5 year review has resulted in significant investment requirements which have been built into the capital programme over the next three years. This will be impacted by other developments such as increased requirements for mobile, flexible and home-working, which will be subject to the development of robust business cases and benefits realisation plans. It should be noted that the GovConnect programme, which government has compulsorily introduced as a secure way of sharing information between public bodies, will have some impact on the way these policies are delivered in future.

35. *Capital commitments and future investment*

The 3 year Capital Programme 2009-12 approved as part of the 2009/10 budget process included a number of longer term schemes with funding commitments beyond the current year. These will obviously be first call on future capital resources and may impact on the availability of funding for new schemes. There are also significant revenue implications to be built in to forecasts. In addition, the shortfall in capital receipts as a consequence of the economic downturn has required significant short term borrowing – the MTFS assumes that future receipts will, in the first instance, be used to repay this borrowing. The overall affordability of the total Capital Programme has been a key consideration in the budget.

36. *Investment in Physical Assets*

To sustain our operational and community assets investment will be required. Reviews will establish which buildings are required for longer term service provision and staff office accommodation, with consideration being given to the emerging neighbourhood's agenda and the proposals for more flexible working. There is also a need to review energy usage and more energy efficient options with a view to encouraging lower consumption both in the interests of the environment and delivering cost efficiencies which links in with the approved Carbon Management Plan.

Opportunities

37. *External Funding*

Significant external funding under the Building Schools for the Future (BSF) initiative, where the Council is in wave 4, and the expected income generation by way of the new Regenerate Pennine Lancashire development company, will influence future investment across the Pennine Lancashire sub-region.

Shared services across Pennine Lancashire, facilitated by the new company, may provide opportunities not only to generate efficiencies but to maximise the use of external funding across the sub-region. The Multi Area Agreement between the Council, Lancashire County Council and the 5 District Councils of Burnley, Hyndburn, Ribble Valley, Rossendale and Pendle, will further strengthen joint working across Pennine Lancashire, as demonstrated by the sharing of building control services between this Council and Burnley.

38. *Business Transformation*

The Council's investment in bdirect, the transfer in-house of the ICT Service and the changes being made to the senior management structure will help to ensure that opportunities for efficiencies through changing business processes are delivered.

39. *Procurement*

The Council's procurement strategy action plan is on course for delivery within target including replacing the current P2P system with a system integrated into the Council's finance system Masterpiece. The Procurement Champions Group is now working to embed good practice throughout the Council. The Council is collaborating on several procurements with other authorities via the Lancashire Procurement Hub which frees up procurement officers to advise on major projects and strategic tenders.

40. *Future Accommodation Requirements*

The key driver, around which the accommodation strategy is centred, is the vacation of the Exchange Building currently occupied by the Children's Services department. To retain The Exchange, which is no longer considered fit for purpose and was only intended to be a temporary arrangement, would involve significant investment in order to continue occupation and is not a feasible option.

The preferred option is to relocate to a cluster of town centre properties. This may require capital investment in repair, refurbishment and fitting out to provide modern office accommodation. New working practices, including home working and mobile working, will need to be adopted to improve the efficiency of office floor space use.

41. *Council Tax*

Comparisons with other unitary authorities show that average Council Tax payable per dwelling is low being in the 4th quartile even though our spending is in a higher quartile. The Council has adopted a council tax policy for the next 3 years such that the authority's maximum council tax increase will be in line with or below inflation. The Council may, however, need to review this policy when future funding settlements are published by central government.

42. *Partnerships*

The Council and NHSBwD are establishing a Care Trust Plus for the purposes of joint commissioning. An Integrated Care Partnership has also been established to take advantages of collaborative approaches to the provision of services, and closer working has been established by the co-location of significant staff and services.
Under the terms of the Compact which has been developed between the Local Strategic Partnership and the third sector within Blackburn with Darwen, the principle of 3 year funding arrangements with third sector organisations, usually under Service Level Agreements, is being supported in appropriate cases. This will give third sector organisations longer term financial stability and certainty in the planning and delivery of services on behalf of other LSP partners, including the Borough Council. It will be allied to proper performance management and monitoring arrangements. However, in the current economic circumstances, the

LSP and the Council's Executive Board have agreed that when 3 year Service Level Agreements are put in place, individual services should consider specifying that the level of funding will be determined on an annual basis following the same level of up / down rating as is applied to the commissioning budget to minimise the risks of inadequate budgetary provision in the second and third year of the Agreements. However, it has been acknowledged that any reduction in funding would need to be accompanied by a re-negotiation of the targets and outputs within the Agreement. This could give rise to cases where service provision could become untenable so the annual break points in 3 year agreements might need to be invoked to allow withdrawal if necessary.

2009/10 budget monitoring position

43. The Council set the 2009/10 budget with a view to utilising around £0.7M of balances, whilst ensuring that balances do not fall below a minimum of £4M over each of the next three years. The budget monitoring report to December Executive Board forecast balances to be around £4.8M at 31 March 2010. A number of pressures are being identified in some portfolios, with Children's Services identifying issues which will become more significant for 2010/11. Action plans are being considered by portfolio Members to address these in 2009/10, but there may be some difficult decisions required for 2010/11. Whilst the Council had to allow for significant price increases for gas and electricity last year, prices are now falling substantially, with the latest electricity contracts showing a 40% price reduction. Pay and price inflation has also proved to be lower than originally estimated.

Three Year Financial Forecast

44. The Council's revenue position is affected by two main issues, the current estimated figures are summarised year on year in the table below and detailed in Appendix 1.

	2010/11	2011/12	2012/13
	£ 000's	£ 000's	£ 000's
Estimated Increase in Resources / Savings	8,753	3,443	652
Assumed Cost pressures at existing service levels to be funded corporately	5,572	14,258	9,584
Budget shortfall / (surplus)	**(3,181)**	**10,815**	**8,932**

In addition to this, however, portfolios have also identified service pressures some of which are potentially significant.

The options available to the council for meeting this shortfall, in order to formulate a budget strategy, are:

- Increases in council tax (1% increase raises approximately £490K)

- Use of balances (see paragraph 47 on levels of balances) – these can only be used once and are more appropriate to apply towards one-off non-recurring costs
- Reductions in expenditure
- Increases in income

45. Assumptions and Risks

It is important that the underlying assumptions and the risks are considered, as set out below:

Assumptions	Risks
Resources	
Maximum council tax increases each year to be in line with or below the level of inflation.	Inflation rates may vary significantly to those assumed.
The formula grant settlement for 2011/12 and 2012/13 (including area based grant) will not be disclosed until after the comprehensive spending review due in the summer of 2010.	There is great uncertainty with regard to future funding levels. However, as the Chancellor has stated his commitment to halve public sector debt within four years, it will be inevitable that significant reductions in central funding will be made.
Local Authorities Business Growth Incentive scheme grant.	Business rate growth during the current economic uncertainty may be smaller than expected.
Spending Pressures	
Pay inflation of 1% for each of the next three years.	Future pay awards not certain.
Price inflation generally at 1.0%, allowing for above-average inflation for fuel price increases and waste disposal costs (including landfill tax).	Inflation rates may vary significantly to those assumed.
Pension rate – actuarial review due to take effect from 2011/12.	Increase is expected, but may be greater than allowed for.
Borrowing costs in respect of current capital programme commitments. Forecast assumes that capital receipts in respect of the sale of Darwen Moorlands school site and the Blackburn market site, are used to repay advance borrowing and *not* to finance new expenditure. It has also been assumed that most of the capital receipts in future years, arising as a consequence of the slow market conditions in 2008/09 and 2009/10, will be committed to the repayment of temporary borrowing and will *not* therefore be available in full for	Capital receipts may not be as great as forecast. Capital costs may increase Darwen Moorlands school has been earmarked as a location to decant pupils from other schools as Building Schools for the Future takes place. This may significantly delay any capital receipt. The capital costs in connection with the market redevelopment have not yet been fully established, and whilst it has been assumed that any increased costs will be covered by the capital receipt, the level of receipt

new capital investment.	will be dependant upon planning decisions regarding the future of the old site, and any capital receipt could fall significantly short of the amount anticipated.

Further budget pressures and opportunities

46. In addition to the budget pressures outlined above and shown in Appendix 1, portfolios have identified service pressures and other developments in the region of £9.8M.

RESERVES

47. The council's unallocated general fund reserves are currently predicted to be £4.8M at 31st March 2010, together with £3.5M earmarked reserves excluding schools. Earmarked reserves have been set aside for specific purposes and are not generally available to support the revenue budget. They mainly relate to contributions from developers towards works required as a condition of planning permissions (£1.250M), an amount to equalise the costs of the asylum seekers contract (£0.435M), an amount put aside to support the initial phases of building schools for the future (£0.756M) and an amount to support the phased withdrawal of housing market renewal funding (£0.321M).

An assessment of the minimum level of unallocated reserves is required to be undertaken by the Director of Finance as part of the budget process. The minimum level of reserves recommended when setting the 2009/10 budget was £4M, and it is recommended that this level be maintained over the period of the medium term financial strategy.

Given the considerable degree of uncertainty that exists at present, the Council has considered several alternative budget scenarios for future central government funding. The Council has undertaken a detailed assessment of all external grants, including area based grant, and based on current published information, expects to see substantial reductions in specific grants and area based grant. These projections have been incorporated into the MTFS. The Council also considered possible future levels of formula grant and has produced alternative scenarios.
One (the most positive) assumes a standstill position with no increases even for inflation, and no reductions either. This scenario also assumes only a 5% reduction in area based grant each year.
A second scenario is based on a reduction of 5% in formula grant each year in 2011/12 and 2012/13, together with a 10% annual reduction in area based grant. This forms the basis of the MTFS.
The third scenario assumes a 15% reduction in formula grant in 2011/12, though this is thought to be unlikely, followed by a further 5% the year after, with a 10% annual reduction in area based grant.
The impact of these scenarios on the Council's reserves over the next three years, prior to taking into account budget proposals, is shown below:

	Most positive scenario	MTFS scenario	Least positive scenario
	£M	£M	£M
Reserves at 31 March 2010	4.769	4.769	4.769
Contribution to reserves 2010/11	0.480	0.480	0.480
Reserves at 31 March 2011	**5.249**	**5.249**	**5.249**
Use of reserves 2011/12	-5.158	-10.815	-18.904
Reserves at 31 March 2012	**91**	**-5.566**	**-13.655**
Use of reserves 2012/13	-8.788	-19.747	-27.911
Reserves at 31 March 2013	**-8.697**	**-25.313**	**-41.566**

The level of reserves planned after taking account of the budget proposals for the next three years are as follows:
31st March 2011 £
31st March 2012 £
31st March 2013 £
(*These figures will be completed following approval of the three year budget*)

CAPITAL STRATEGY

48. A Capital Strategy is an integral part of medium term financial planning. It outlines the Council's approach to planning, prioritising and funding schemes.

The council has a portfolio of operational and commercial assets valued at over £400M. Maintaining these assets so they perform effectively and protect their value for future generations is a key priority for the council. The council is further developing an asset management plan together with an associated corporate repair and maintenance programme to underpin this.

Capital resources are currently significantly committed, and the opportunity for new schemes being introduced is limited. It is necessary to prioritise future capital bids, to assess and evaluate the effectiveness of the proposed capital project in achieving the Council's key corporate priorities. The Council operates an objective process for portfolios to bid for capital resources. This is by way of a system of "gateways" – the first gateway considered high level bids which are being prioritised by linking to the council's asset management and service plans. Those passing through the first gateway have then been developed in greater detail, thus eliminating the need to undertake significant abortive preparation work. The appraisal of proposed projects includes an assessment of the contribution to the Council's strategic objectives, levels of cost and risk, availability of resources, funding profile and the on-going revenue implications of any capital expenditure, covering capital financing costs, full life cycle operating costs of assets and staffing costs, together with other issues such as environmental impact.

The final selection of schemes is, however, dependant upon the level of capital resources available. The submission of projects which can generate substantial savings sufficient to finance borrowing costs and contribute towards corporate savings targets are also likely to be favoured.

The Council has developed a detailed Capital Programme covering the next 5 years (2010/11 to 2014/15), which is being put forward for approval. The capital programme reflects the major regeneration agenda and also demonstrates the commitment to working in partnership with a range of public and private sector organisations to generate large-scale inward investment and maximise external funding to achieve the aims for the Borough.

The draft capital programme has plans for capital investment of £330 million over the next 5 years. The main areas of expenditure are as follows:

	£ million
Adult Social Care	7
Children's Services	119
Housing	44
Leisure and Culture	25
Regeneration and Environment	67
Resources	33
	295

In addition, negotiations are proceeding with Lancashire County Council regarding the repayment of the share of a loan the Council has with Lancashire County Developments Limited, which would be conditional on the Council utilising this to support some pump-priming finance on behalf of Regenerate Pennine Lancashire.

The Council maintains comprehensive and robust procedures for managing and monitoring its capital programme. The programmes team meet monthly with project leaders to review all capital schemes. The aim of these meetings is to help monitor the current budget for the projects, against expenditure to date and to highlight any issues and difficulties faced by individual schemes to the Senior Policy Teams. The reports ensure that the Council's objectives and proposed outcomes are achieved and that financial performance is not compromised. The monitoring reports include an assessment of how the project is proceeding with regards to budget and timescale and includes forecasts of any anticipated variations to target outcomes.

It is the Council's policy to maximise capital receipts through a review of existing property use. A rigorous approach has been adopted to the identification and disposal of surplus assets that are no longer required to meet the corporate priorities of the Council. The Asset Management Group review on a continuing basis the property portfolio and identifies properties for sale.

The Medium Term Financial Strategy depends upon the use of the eventual expected capital receipts arising from the sale of the Markets site and Darwen Moorland School to be used to repay the short term borrowing for the land assembly. In addition, the planned receipts for 2009/10 and, to a lesser extent, 2010/11, have been delayed due to the effects of the recession. In order to maintain investment the Council has borrowed temporarily, which will be repaid from future receipts. It is thus not expected that capital receipts will be available to support new investment until 2014/15.

APPENDIX 1

MEDIUM TERM FINANCIAL FORECAST 2010/11 TO 2012/13

Summary (year on year variations)

	2010/11	2011/12	2012/13
Increase in Resources / Savings	£ 000's	£ 000's	£ 000's
Formula Grant	3,829		
Council tax increase 2010/11	*		
Council tax increase 2011/12		*	
Council tax increase 2012/13			*
Non-recurring expenditure 2009/10	1,736		
Reduced pay and price inflation	848		
Borrowing costs reduced due to capital slippage and debt rescheduling	230	700	564
Portfolio savings targets already agreed	720	580	
Early retirement savings	729	808	
Other net savings	661	1,355	88
Net increase in resources	**8,753**	**3,443**	**652**

* (*These figures will be completed following approval of the three year budget*)

	2010/11	2011/12	2012/13
Cost Pressures	£ 000's	£ 000's	£ 000's
Potential reductions in central government funding		7,082	6,877
Pay, pensions and price inflation		1,994	2,023
Use of balances to support budget in 2009/10	700		
Cost of approved ongoing capital programme	864	1,981	565
Salary increments	1,001		
National insurance increase		800	
Increase in pension contributions		950	1,065
Adult Social Care support already agreed	1,000		
Blackburn Market / Mall investment	701	546	(657)
Youth development project	100	300	
Carbon reduction commitment		100	
Waste disposal		408	(369)
Other changes	1,206	97	80
Net increase in pressures	**5,572**	**14,258**	**9,584**

	2010/11	2011/12	2012/13
	£ 000's	£ 000's	£ 000's
BUDGET SHORTFALL / (SURPLUS)	**(3,181)**	**10,815**	**8,932**

	2010/11	2011/12	2012/13
Budget Plans	£ 000's	£ 000's	£ 000's
Budget shortfall/(surplus) brought down	(3,181)	10,815	8,932
Repay balances used in 2009/10 in respect of early retirement scheme	480		
Efficiencies and service reviews will be completed following approval of the three year budget	2,701	(10,815)	(8,932)
Balanced Budget position	**0**	**0**	**0**