

MEDIUM TERM FINANCIAL STRATEGY 2011 to 2015

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 Transformational Workforce Strategy. The Capital Strategy is, in addition, embodied within the MTFS.
4. Whilst the previous MTFS was prepared with much uncertainty regarding future funding streams, the Comprehensive Spending Review (CSR) published last Autumn provides clear indications of significantly reduced public expenditure over the next four years. The subsequent local government financial settlement has provided provisional figures for 2012/13 as well as the grant position for 2011/12, but no indications have yet been provided for the following two years. As expected, significant reductions in grant funding, heavily front-loaded, requires the Council to make some very difficult decisions about the level of services that can continue to be provided.
5. Executive Members worked with Directors during the autumn period to prepare budgets on the basis that reductions of 25% to 35% may be required over the next 4 years, with an expectation that these would be heavily front-loaded. At a special Council meeting in early January, the Council agreed in principle for a number of savings proposals to be developed subject to agreement by the Finance Council in March. With the rapidly changing financial position, the Council has agreed a new 2030 vision statement for "Creating a Connected, Prosperous, Clean, Safe and Healthy Blackburn with Darwen".

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. 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 2009/10 and latest forecasts for 2010/11 indicate that spending pressures continue across a number of service areas, and the four year budget forecast has been adjusted to take account of these changes.
7. This MTFS is being prepared against the backdrop of continued 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. the achievement of significant reductions in service levels

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.

Principles

10. 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 quality services against a backdrop of reducing resources
 - 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 demonstrate value for money in line with stated priorities and identified need

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- identification of ongoing efficiency savings (cashable and non-cashable), to redirect into front line services
 - continuing to seek to maximise appropriate but limited 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
11. 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 within financial restraints imposed by Central Government. This may mean re-engineering the way in which services are provided or, indeed, who provides them.
12. There is inevitably 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. Whilst the government has published a two year financial settlement, details for the following two years have not yet been received, and thus there remains considerable uncertainty about the level of resources available in future years.
13. Members and officers are committed to successful partnership working, reflected in the existing partnership with Capita, closer working across Pennine Lancashire through PLACE and RPL, particularly on housing and economic development issues (including the joint building control service with Burnley), the strength of the Local Strategic Partnership (LSP) and the Local Public Service Board (LPSB). Blackburn with Darwen has lead the way forward in joint health working in first establishing a commissioning Care Trust Plus and then further by setting up a shared management structure between the Council and NHS Blackburn with Darwen Care Trust Plus. 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.

National Considerations:

14. Local Government Finance settlement

The provisional local government finance settlement was finally published on 13th December and, unfortunately, broadly confirmed the Council's own forecasts and the earlier indications in the CSR. Provisional figures were provided for 2011/12 and 2012/13. Following a period of consultation, the final settlement for those two years was published on 31st January 2011.

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The government is still indicating that indicative figures for 2013/14 and 2014/15 will be provided, however, as yet, there is no confirmed date for receipt of this information. This makes longer term financial planning and the development of a robust MTFS more difficult. Further reductions are anticipated although it remains likely that the majority of the funding reductions are front loaded in the first two years.

Revenue Spending Power

The government has introduced a new measure, termed 'Revenue Spending Power' (as shown in the tables below) being the total a Council spends funded from formula grant, some specific government grants and council tax.

The reduction in Revenue Spending Power for 2011/12 in the final settlement is £18.0M or 10.5% for Blackburn with Darwen with a further reduction of £8.7M or 5.6% in 2012/13.

The government has provided for a one year only 'Transition Grant' to keep the maximum reduction for any authority to 8.8% (amended from 8.9% in the provisional settlement). This Transition Grant equates to £2.97M additional funding for the Council in 2011/12 only.

The final settlement figures are shown in the table below:

2011/12

	2010/11 £M	2011/12 £M	Change £M	Change %
Formula Grant (adjusted)	92.4	82.6	-9.8	-10.6%
Specific Grants (adjusted)	28.9	18.7	-10.2	-35.3%
Council Tax	49.9	49.9	-	-
Social Care funding	-	2.0	+2.0	-
Revenue Spending Power	171.2	153.2	-18.0	-10.5%
Transition Grant	-	2.9	+2.9	-
Total	171.2	156.1	-15.1	-8.8%
Total (excluding Council Tax)	121.3	106.2	-15.1	-12.4%

2012/13

	2011/12* £M	2012/13 £M	Change £M	Change %
Formula Grant (adjusted)	82.2	76.1	-6.1	-7.4%
Specific Grants (adjusted)	17.2	17.5	+0.4	+2.3%
Council Tax	49.9	49.9	-	-
Social Care funding	2.0	1.9	-0.1	-5.0%
Revenue Spending Power	151.3	145.4	-5.9	-3.9%
Transition Grant	2.8	-	-2.8	-100.0%
Total	154.1	145.4	-8.7	-5.6%
Total (excluding Council Tax)	104.2	95.5	-8.7	-8.3%

* adjusted base provided for comparison purposes

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Analysis of the provisional settlement was undertaken by a number of bodies, including the LGA and SIGOMA, indicating that the most deprived areas will suffer disproportionately higher reductions in funding.

Government funding

However, as stated in the report to Council, the financial settlement is complex and the tables above reflect a number of adjustments to the baseline position for 2010/11 and include specific grants now rolled in to Formula Grant, changes to Area Based Grant and removal of ringfencing of a number of funding streams. In addition some grants previously received into the authority are now included in the Dedicated Schools Grant.

The additional table below shows the year on year change in government funding from the 2010/11 baseline to 2011/12.

Change in funding:

	2010/11 £000	2011/12 £000	Change £000
Formula Grant	81,633	82,551	918
Area Based Grant	28,558	-	-28,558
LABGI	75	-	-75
HMR	3,804	-	-3,804
RDA funding	1,321	-	-1,321
Sure Start and Early Years	8,736	-	-8,736
Early Intervention Grant	-	11,682	11,682
Concessionary travel	503	-	-503
Social Care Reform Grant	749	-	-749
Planning Delivery Grant	261	-	-261
PCT income replaced by Learning Disability & Health Reform Grant	4,060	4,110	50
Benefit Admin Grant	1,526	1,561	35
Other specific grant funding	1,979	127	-1,733
TOTAL	133,205	100,031	-33,174 -24.9%

Council Tax

In addition to this, should Finance Council agree to no increase in Council Tax in 2011/12, then the authority will receive Council Tax Freeze Grant of £1.25M (equivalent to a 2.5% increase in Council Tax) in each of the next 4 years.

Schools funding:

Another adjustment to Formula Grant has been made based on national assumptions about the potential development of new academies which would see funding transfer from local authorities to academies. The government has

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reduced BwD's Formula Grant by £455k from 2011/12 on the assumption that there will be some new academies somewhere across the country. Despite lobbying nationally, this adjustment remains in the final settlement.

In addition, as referred to above, a number of specific grants such as Schools Standards Grants and Standards Fund previously received by the authority are now being rolled into Dedicated Schools Grant. The extent to which this will impact on the authority depends on the extent to which schools 'buy back' services in future that were previously funded by grants managed centrally by the Council.

Schools-related expenditure is funded by Dedicated Schools Grant and a new Pupil Premium grant that will be introduced from April 2011. The settlement figures are shown below:

Dedicated Schools Grant

Indicative figures	£000
2010/11	109,238
2011/12	129,970
2012/13	130,598

Pupil Premium

Indicative figures	£000
2011/12	2,330

Social Care Funding

The government indicated that it is providing additional funding for social care via the NHS, totalling £2bn nationally by 2014/15. The Care Trust Plus (CT+) locally will receive the figure of £2M shown in the earlier tables for 2011/12 (£1.9M in 12/13) for social care with the intention that it will be 'passported' to the local authority to meet additional growth in social care costs and preventative measures - however this will have to be formally agreed by the Council and CT+.

15. Carbon Reduction Commitment

The Government has deferred the introduction of this initiative until April 2012, and has made some fundamental changes to the proposed operation of the scheme. 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. However, whilst the original scheme proposed that payments should be recycled depending upon outcomes, the payments will now

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be retained by the government. The financial year 2011/12 will be a base year, with the first purchase of allowances being in April 2012, estimated at £300,000, but as this payment will relate to carbon usage during 2011/12, the cost will be charged to 2011/12.

16. Pensions

The Local Government Pension Scheme (LGPS) is administered by Lancashire County Council and actuarial revaluations are undertaken every 3 years. An actuarial review has been undertaken this year, and will require increased pension contributions during each of the next three years, which have been factored into the MTFS. These contributions have been assessed on the basis of recovering the estimated pension fund deficit over the next 19 years.

Local Context

17. Policy Council last December agreed the strategic framework for the Council and the key priority areas, as set out in paragraph 19 below.

The strategic objectives and corporate priorities clearly demonstrate the links to the 2030 vision and the LSP priorities set out in the Community Plan and how the Council's corporate planning process, including this MTFS, is driven by these overarching priorities to ensure the vision is achieved.

18. *Council Strategic Objectives and Corporate Priorities*

The 2030 vision is supported by 4 strategic objectives and 2 corporate priorities which reflect what we are trying to achieve:

Strategic Objectives

- Connected
- Prosperous
- Clean
- Safe and Healthy

Corporate Priorities

- Managing Risk
- Delivering Transformation and Downsizing

19. *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 Transformational Workforce Strategy and the Carbon Management Plan.

20. 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.

21. What do people think?

The Council has consulted widely with residents, partners and stakeholders to gain a consistent understanding of local priorities.

Three major consultations have taken place between 2008 and 2010 with the Place survey from 2008, research consultation and engagement to develop the Local Strategic Partnership Vision 2030 and neighbourhood consultations during the summer of 2010. Each of these three has contributed strongly to the Council's understanding of local priorities. At the strategic level, Improving the local economy and jobs available for local people along with reducing crime have been consistent priorities. Consultation and engagement from the last two years shows that improving the ways that communities get on together are also consistent as a local priority. In relation to local service delivery clean streets, improved parks and open spaces and refuse collection have been consistently identified as local priorities.

This year the Council in partnership with Care Trust Plus have undertaken a major consultation and engagement process with staff, local people communities, partners and business to establish in more detail priorities for service provision at a time when Council and other public sector resources are being reduced significantly. The consultations have take a range of forms, utilising the Citizen's Panel, public meetings, ward based community discussions, priority setting sessions with service users for each of the key council portfolios; setting up the YouGov, YouChoose, accessible through the Council Website and a series of opportunities for staff input to the process of developing local priorities.

The Council provided participants with a consistent list of services and asked:

- What services should the Council protect
- What services could be cut back?
- What services should be stopped?

The Citizen's Panel, a robust and representative sample survey of residents concluded that the services to be protected through cuts were education, refuse collection and street cleaning, leisure provision and care services, while identifying services that could be cut as advice services, administration and road works, although almost nine out of ten felt that all services should be protected.

A major public consultation meeting for residents concluded that Community Safety, Adult Social Care and street cleaning were priorities to be protected, while tourism, events and festivals and museums and galleries could be cut back. Young people were clear that children's social care, youth work, education,

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and child safeguarding were priority services to be protected while festivals and events, parks and playgrounds and King George's Hall could all be cut back.

Consultation with neighbourhoods felt that communities getting on, improved public transport, clean streets, community centres, improved parks and open spaces and maintaining standards for refuse collection were priorities.

Groups were asked to identify specific ideas for making savings and ideas covered reducing administration and bureaucracy, along with a number of specific suggestions including a review of all universal services to identify scope for charging, encourage residents to support vulnerable neighbours; cut back opening hours for leisure and cultural provision. Consultation with businesses felt there was a need to identify and priorities investment that would bring a return for the public sector and that there was a need to undertake impact assessment of proposed cuts to funding before a rational judgement could be made.

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.

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.

22. *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 the future delivery of quality, value for money services whilst operating within the financial constraints imposed by the Local Government Finance Settlement. The Council is currently undertaking a comprehensive programme of service and cross cutting reviews to achieve this aim.

These reviews will address the quality and scope of provision of service and whilst the Council will strive to ensure accessibility, quality, value for money and affordability, this will be increasingly difficult to achieve against a background of reducing resources.

The front loaded reductions in government will affect this Council and the services it provides to the public. The Council is however committed to mitigating wherever possible the impact on front line services.

Cost Pressures

23. 2010/11 Budget Monitoring

Current budget monitoring indicates ongoing cost pressures in a number of areas, particularly in Children's Services, and there are continuing income shortfalls as a consequence of the recession in some portfolios. The incoming government took steps to reduce the amount of grant funding part way through this current financial year, and the Council had to respond quickly to ensure no overspending occurred as a result.

24. 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 Allowance 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 have purchased 1500 credits for 2010/11 at a cost of £15 each and have negotiated the same price for 2011/12. The unit price is expected to escalate in 2012/13 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 was re-negotiated in April 2010 and the Council managed to obtain a competitive price for the next 10 years which provides some certainty. Current UK landfill tax is set at £48 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 is currently undertaking a procurement exercise which is likely to involve building a waste facility for a contractor to manage.

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
2011/12	2,738	2,738
2012/13	3,090	3,090
2013/14	3,804	3,462
2014/15	3,936	4,332
2015/16	3,999	4,335

25. *ICT*

The ICT Strategy developed following completion of the 5 year review of the strategic partnership 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.

26. *Capital commitments and future investment*

The 3 year Capital Programme 2010/13 approved as part of the 2010/11 budget process included a number of longer term schemes with funding commitments beyond the current year. All capital schemes have been reviewed during the year and only those schemes which are regarded as a high priority have been retained in the programme. Furthermore, the Government is providing no more supported borrowing approvals (where borrowing costs are "supported" by government grant), although there continues to be some limited capital grants, largely for highways and Schools. As a consequence, there is little scope for introducing many new capital projects over the next four years.

27. *Investment in Physical Assets*

To sustain our operational and community assets investment will be required, but resources will restrict this investment in the medium term. Reviews will establish which buildings are required for longer term service provision and staff office accommodation, particularly in the light of reductions to the workforce 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.

Opportunities28. *External Funding*

Significant external funding under the Building Schools for the Future (BSF) initiative has been largely maintained for the first four schools but with a sizeable reduction in funding for the rest of the programme, and many other external sources of funding have been reduced or eliminated.

Shared services across Pennine Lancashire, facilitated by Regenerate Pennine Lancashire Limited, may provide opportunities not only to generate efficiencies but to maximise the use of external funding across the sub-region.

29. 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. A small team is being established to monitor and assist departments to achieve the business transformation required to enable them to deliver services with reduced resources.

30. 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.

31. 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. This site is important for further town centre regeneration linked to the existing markets site. To retain The Exchange, which 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 consolidate within the town centre in properties in the Council's ownership. 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. However, this will release the Council from a number of expensive building leases, saving on revenue budgets and enhance the town centre economy through consolidation.

32. 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 government is encouraging councils to freeze council tax increases for 2011/12 by providing a grant, equivalent to a 2.5% tax increase, and which will be payable for each of the next four years. The MTFs assumes that council tax increases of 2.5% per annum will be implemented from 2012/13.

33. Partnerships

The Council and NHS BwD established a Care Trust Plus for the purposes of joint commissioning. The Council and the Care Trust Plus have further

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established an integrated management structure and are developing shared services, initially in Communication and Human Resources.

The Council as part of the LSP has entered into a contract with Third Sector Organisations and supports the principle of 3 year funding arrangements with Third Sector Organisations usually under Service Level Agreements in appropriate cases. However in the current economic circumstances, the LSP and the Council's Executive Board had agreed that when 3 year Service Level Agreements are put in place, it may be necessary to specify that the level of funding will be determined on an annual basis. The current Local Government Financial Settlement however will lead to reductions in funding for voluntary organisations. The Council is working with the organisations affected to manage the impact of these reductions.

The Council has agreed with its strategic partner, Capita a 10% reduction in contracting costs for services provided. Capita is working with the Council to action the necessary savings.

2010/11 budget monitoring position

34. The Council set the 2010/11 budget with a view to contributing around £0.5M to balances, thus ensuring that balances did 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 £5.5M at 31 March 2011, but this is expected to reduce to £4.5M as additional cost pressures have been identified during January and February.

Four Year Financial Forecast

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

	2011/12	2012/13	2013/14	2014/15
	£ 000's	£ 000's	£ 000's	£ 000's
Reduction in Resources	27,674	35,546	37,299	38,899
Assumed cost pressures at existing service levels to be funded corporately	5,789	10,500	14,864	18,447
Budget shortfall / (surplus)	33,463	46,046	52,163	57,346

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) – although for 2011/12 the government will provide a grant equivalent to a 2.5% council tax rise if the Council does not increase council tax for that year

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- Use of balances (see paragraph 37 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

36. Assumptions and Risks

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

Assumptions	Risks
Resources	
The formula grant settlement for 2013/14 and 2014/15 has not yet been disclosed.	There is uncertainty with regard to future funding levels, although the CSR shows continued reductions in public sector funding.
Spending Pressures	
Pay freeze for 2011/12 and inflation of 1% for each of the following three years.	Future pay awards not certain.
Price inflation generally at 2.5%, allowing for above-average inflation for fuel price increases and waste disposal costs (including landfill tax).	Inflation rates may vary significantly to those assumed.
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 <i>not</i> to finance new expenditure.	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.

RESERVES

37. The council's unallocated general fund reserves are currently predicted to be £4.5M at 31st March 2011, together with £8.5M 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 a reserve set aside for service remodelling (£2.89M), contributions from developers towards works required as a condition of planning permissions (£1.25M), an amount set aside from savings achieved by curtailing grant-funded regeneration by Regenerate Pennine Lancashire to allow the Company to actively pursue new funding sources for 2011/12 (£1.181M), an amount to equalise the costs of the asylum seekers contract (£0.602M), an amount put aside to support the initial phases of building schools for the future (£1.147M), an amount received from Network Rail to support future maintenance to the new Wainwright Bridge

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(£0.506M) and an amount to support the termination of the Housing Market Renewal programme (£0.36M).

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 2010/11 budget was £4.0M, but owing to the budget reductions required and the consequent increased risk of not being able to meet all of these in the timescales planned, it is recommended that this level be increased to £4.5M over the period of the medium term financial strategy.

In previous years the Council has considered several alternative budget scenarios for future central government funding. However, given that there is a reasonable level of certainty of the level of government grants for the next two years, and that there is limited scope for adjusting the level of council tax, modelling of alternative scenarios is of little benefit. Nevertheless the Council has modelled one alternative scenario based upon grant reductions for 2013/14 and 2014/15 being phased in line with the CSR. The two models show budget shortfalls arising as shown in the table below:

	2013/14	2014/15
	£ 000's	£ 000's
Chosen budget model (grant reductions of -3.2% per annum)	3,790	7,825
Alternative reductions in grant in line with CSR (-0.1% and -5.6%)	830	6,833

Both models indicate continued reductions in resources, and the Council has therefore focussed on identifying service priorities and on options for achieving significant budget reductions over the next four years. The level of reserves planned after taking account of the budget proposals for the next three years are as follows:

31 st March 2012	£4.510M
31 st March 2013	£4.510M
31 st March 2014	£4.510M
31 st March 2015	£4.510M

CAPITAL STRATEGY

38. 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 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.

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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 has operated an objective process for portfolios to bid for capital resources in previous years. This underpins the current capital programme. As external funding has become limited, the Council has undertaken a detailed review of existing capital schemes, and has re-prioritised so that the new programme has been significantly curtailed, with only a few small projects being added to the four year programme.

The capital programme is very much dominated by the Building Schools for the Future programme, but continues also to reflect the major regeneration agenda and demonstrates the commitment to working in partnership with a range of public and private sector organisations to generate large-scale inward investment.

The draft capital programme has plans for capital investment of £162 million over the next 4 years. The main areas of expenditure are as follows:

	£ million
Adult Social Care	3
Children's Services	95
Housing	4
Leisure and Culture	2
Regeneration	26
Resources	32
	162

In addition the Council has set aside a further £37M of capital resource over the four year period for further capital schemes should the business proposals behind them demonstrate affordability and improved outcomes.

The Council maintains comprehensive and robust procedures for managing and monitoring its capital programme. Project leaders, programme managers and finance staff review all capital schemes, 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. However, monitoring and reporting arrangements will be reviewed during 2011/12 to ensure they are efficient, robust and fit for purpose.

Whilst the Council's policy is to aim to maximise capital receipts through a review of existing property use, this is balanced against prevailing market conditions resulting in some assets being retained until the property market improves. 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.

APPENDIX D

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 repay the short term borrowing for the land assembly.

APPENDIX D

APPENDIX 1

MEDIUM TERM FINANCIAL FORECAST 2011/12 TO 2014/15

Summary (cumulative over the period)

	2011/12	2012/13	2013/14	2014/15
	£ 000's	£ 000's	£ 000's	£ 000's
Reduction in Resources				
Formula grant (including specific grants "rolled in")	-917	5,572	8,614	11,535
Other non-ringfenced grants	11,594	11,251	11,251	11,251
Specific grant fall-out	21,424	21,424	21,424	21,424
Transitional grant	-2,968			
Government grant in lieu of council tax increase 2011/12	-1,249	-1,249	-1,249	-1,249
Council tax increase 2012/13		-1,257	-1,257	-1,257
Council tax increase 2013/14			-1,289	-1,289
Council tax increase 2014/15				-1,321
Increased council tax base	-210	-195	-195	-195
Net reduction in resources	27,674	35,546	37,299	38,899

	2011/12	2012/13	2013/14	2014/15
	£ 000's	£ 000's	£ 000's	£ 000's
Cost Pressures				
Inflation	2,969	4,806	7,486	10,020
Ongoing savings net of service pressures	-2,637	-3,714	-3,076	-3,027
Cost of approved capital programme	1,105	3,623	4,157	5,157
Winter maintenance contingency	100	100		
Carbon reduction commitment	300	300	300	300
Lead flood defence responsibilities	119	150	150	150
<i>Service pressures funded corporately:</i>				
Adult commissioning demands	2,511	3,524	4,211	4,211
Children's Services – increased cost of foster care and adoption payments		314	314	314
Income shortfalls / reduced demand	1,099	1,099	1,099	1,099
Retention of Police Community Support Officers	223	223	223	223
Core strategy public enquiry		75		
Net increase in pressures	5,789	10,500	14,864	18,447

	2011/12	2012/13	2013/14	2014/15
	£ 000's	£ 000's	£ 000's	£ 000's
BUDGET SHORTFALL / (SURPLUS)	33,463	46,046	52,163	57,346

APPENDIX D

	2011/12	2012/13	2013/14	2014/15
Budget Plans	£ 000's	£ 000's	£ 000's	£ 000's
Budget shortfall/(surplus) brought down	33,463	46,046	52,163	57,346
Savings to meet specific and area based grant reductions	-19,641	-19,641	-19,641	-19,641
Portfolio savings proposals (see appendix 2)	-21,711	-25,707	-27,498	-28,646
Other corporate savings	-1,834	-1,834	-1,234	-1,234
Contribution to redundancy costs	4,040	836		
Contingency allowance for part year effect only of first year savings	5,383			
Transformation and downsizing delivery	300	300		
Further service reviews and efficiencies required subject to financial settlement			-3,790	-7,825
Balanced Budget position	0	0	0	0

APPENDIX 2

THIS APPENDIX WILL BE COMPLETED AFTER FINANCE COUNCIL