DRAFT MEDIUM TERM FINANCIAL STRATEGY 2013 to 2016

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. Robust medium term financial planning is a key requirement in the current economic environment. Ensuring the ongoing stability of budgets will allow managers to plan long-term for their services and ensure that resources are deployed in the best way – to achieve greater efficiency and to align their resources with the priorities of the Council. In this way viable, effective services can continue to be provided to local people.

3. 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, key challenges and opportunities facing the Council.

4. The MTFS forms a key link between financial and business planning, both reflecting and influencing the key plans of the Council, including the Corporate Plan, and other plans such as the Medium Term Property Strategy, Asset Management Process, ICT Strategy, Treasury Management Strategy, Carbon Management Plan and the People Strategy. The Capital Strategy is, in addition, embodied within the MTFS.

5. The Comprehensive Spending Review (CSR) published in 2010 provided clear indications of significantly reduced public expenditure over the four year period to 2015. The Council's government funding in the first two years of the spending review period, has been reduced by £38.4 million or 28.8%. Although the Council has achieved its saving targets for 2011/12 and 2012/13, some very difficult decisions have had to be made about the level of services that can continue to be provided.

6. In March 2012, in the absence of detailed financial information on the likely finance settlements and associated government grant funding levels for the remaining two years of the CSR period, the Council revised its MTFS to incorporate three scenarios for 2013/14 and 2014/15. The worst case scenario estimated a budget gap or shortfall of £27 million by 2014/15. Based on this Executive Members and senior officers prepared a range of budget options, amounting to reductions of around 20% across all portfolios, to enable a balanced budget to be set in March 2013. Given the extent of these reductions and previous experience in 2011/12 (when swift, decisive and successful action was taken) early budget savings for the revenue budget 2013/14 and 2014/15 where approved by Council Forum on 31st January 2013.

7. The Government published its Local Government Finance Report on 4th February 2013, which included final settlement figures for 2013/14 and provisional figures for 2014/15. Analysis of the settlement and the pressures the Council faces now confirms that budget reductions of up to £30 million will be required by 2014/15.

   The Council is committed to consulting with its residents, businesses, stakeholders and partners. The Council has also consulted prior to developing its' policies in relation to council tax reform and localisation of council tax benefit, and when setting its council tax. This MTFS aims to re-align scarce resources on key priorities which have developed following public consultation.

<u>Financial Outlook</u>

8. Latest forecasts for 2012/13 indicate that although spending pressures continue across a number of service areas, most portfolios are beginning to generate underspends in anticipation of the requirement to make significant budget cuts in 2013/14 and beyond. The three year budget forecast has been adjusted to take account of these projections.

9. This MTFS is being prepared against the backdrop of a difficult economic climate which continues to impact upon businesses and citizens of the borough, and places pressure on Council services to respond. The Council's strategy will be to prepare a budget that will help support those in hardship whilst ensuring jobs and businesses are protected as much as possible.

10. 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
    e. the changes resulting from the Local Government Resource Review and the local retention of business rates
    f. Welfare reform and localisation of council tax benefit
    g. NHS reform and the transfer of public health responsibilities
    h. Education finance reform (including Academies and Free Schools)

<u>Priorities</u>

11. 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.

<u>Principles</u>

12. 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
- 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

13. The delivery of the strategy over the medium term will depend largely on the Council's continued success in reprioritising services, realigning resources to meet its key priorities and delivering efficiencies within financial restraints imposed by Central Government. This may mean further re-engineering the way in which services are provided or, indeed, who provides them.

14. 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. Although the government has published a two year financial settlement, details for the third year of the medium term plan have not yet been received. Furthermore, significant changes to the financial framework governing Local Authorities will start to impact from 1st April 2013. Thus there remains considerable uncertainty about the level of resources available in future years.

15. Partnering, supporting and working together have long been strengths of the Council, and it has delivered some very practical examples of these principles, including:
    - working with community members and groups to help them take over the running and ownership of a number of their valued facilities

- encouraging residents to make positive health choices by providing the Re:fresh leisure programme
- opening the new Centre for Independent Living within Blackburn Central Library, to provide a one stop shop for advice and support for people with a wide variety of health conditions
- working in partnership with local business and young people to design, build and provide services from the Blackburn Youth Zone
- implementing the Your Call programme to ensure that action is taken on issues of concern to residents.

The Council also demonstrates its commitment to successful partnership working, in the existing partnership with Capita, closer working across Pennine Lancashire through PLACE and Regenerate Pennine Lancashire, and its key role within the Local Strategic Partnership (LSP).

National Considerations:

16. Local Government Finance settlement

The final Local Government Finance settlement was published on 4th February 2013 and included details of funding allocations for 2013/14, together with the provision of indicative figures for 2014/15.

The settlement introduces the most radical changes to the funding of Local Government in a generation including the local retention of business rates and the development of Local Council Tax Support schemes to replace the national Council Tax Benefit scheme. These two Government policies fundamentally affect the source and the distribution of funding and the risk profile facing the Council, which makes longer term financial planning and the development of a robust MTFS more difficult.

Local retention of business rates

As part of the new mechanism for resource allocation, the Council is able to retain 49% of the net business rates it raises locally, with 1% passed to the Fire Authority up to a limit beyond which a levy would be payable to central government. An amount of “start-up funding” has been calculated for the Council based on the relative needs assessment previously used for 2012/13 grant allocations. The Council will receive a top-up, as its allocation of Revenue Support Grant (RSG) plus its share of the business rates baseline, is less than the “start-up funding”

	2013/14 £M	2014/15 £M
RSG	58.5	48.4
Local share of business rates baseline (49%)	21.8	22.4
Top-up	17.2	17.7
Total Start Up Funding Assessment (SUFA)	**97.5**	**88.5**

For any gains or loss in business rates in future, 50% will be passed to the government, 1% to the Fire authority and 49% retained by the Council. A "safety net" mechanism provides additional funding for Councils who suffer a reduction greater than 7.5% in total business rates income. However, the Council could suffer a loss of income of up to £2.9M before a "safety net" payment would be triggered.

Local Council Tax Support scheme

A Local Council Tax Support scheme has been developed, consulted on and was approved by Council Forum on 31st January 2013. The scheme replaces Council Tax Benefit by introducing a new council tax discount, which significantly reduces the number of chargeable properties (tax base) and impacts on the Council's ability to raise local tax income.

Government funding

The final settlement figures are shown in the table below:

	2012/13 £M	2013/14 £M	Change £M	Change %
Formula Grant (adjusted to include council tax benefit / council tax support grant)	87.2	83.0	- 4.2	- 4.8%
Other non-ringfenced grants	21.3	21.2	- 0.1	- 0.5%
Total	**108.5**	**104.2**	**- 4.3**	**- 4.0%**

	2013/14 £M	2014/15 £M	Change £M	Change %
Formula Grant (2013/14 adjusted to include council tax support grant)	83.0	74.5	- 8.5	-10.2%
Other non-ringfenced grants	21.2	21.0	- 0.2	- 0.9%
Total	**104.2**	**95.5**	**- 8.7**	**- 8.3%**

Council Tax

It should be noted that should Finance Council agree to no increase in Council Tax in 2013/14, then the authority will receive Council Tax Freeze Grant of £0.5M (equivalent to a 1% increase in Council Tax) in 2013/14 and 2014/15. This MTFS is based on the assumption that the Council will receive additional revenue through the council tax freeze grant.

Education funding

An adjustment to Formula Grant has been made in respect of funding for schools and education from 2013/14. As part of the funding settlement a new grant, the Education Services Grant (ESG), has replaced the LA Block element of Local Authority Central Spend Equivalent Grant (LACSEG) for Academies, and the corresponding element of local authority revenue funding. As a result, Blackburn with Darwen's revenue funding allocated via DCLG has been reduced by £3.404M for 2013/14, whilst only £3.015M has been re-allocated to the Council via the new ESG.

In addition, it is proposed that further adjustments will be made as and when schools become Academies during the 2013/14 financial year.

Dedicated Schools Grant

Local Authorities will continue to be allocated funding through the Dedicated Schools Grant (DSG) based initially on previous funding levels, but from April 2013 DSG funding will be allocated in three notional blocks:

- Schools Block
- High Needs Block
- Early Years Block

The notional blocks will not be individually ringfenced but will be ringfenced in total and they are initially based on planned spend in 2012/13. The DSG allocation for 2013/14 is shown below:

	£M
Schools Block	107.022
High Needs Block	20.839
Early Years Block	7.334
Additions and cash floor	2.050
Total DSG allocation 2013/14	**137.245**
Less: Funding for Academies	10.500
DSG available to the Council 2013/14	**126.745**

DSG available to the Council for 2013/14 is £126.745M. This is an increase of £2.6M above the 2012/13 allocation, which primarily relates to additional costs that have to be met from DSG for:

- Funding for 2 year old provision - £1.89M
- Funding for post 16 SEN provision - £0.95M

Pupil Premium funding is allocated to local authorities to passport directly onto schools to support the education of the most deprived and vulnerable learners. The Pupil Premium for 2013/14 is £6.8M excluding Academies (£4.7M in 2012/13).

Council Tax Support funding

Within the Start Up Funding Assessment, the Council will receive £10.9M grant in respect of the new Council Tax Support Scheme. The Police and Fire Authorities will also receive grants totalling £1.7M towards the costs of the discounts resulting from this scheme in the Blackburn with Darwen area, In 2011/12 the

Council received Council Tax Benefit Subsidy of £14.4M meaning that the new grant support is a reduction in funding of around £1.8M or 12.5%.

Social Fund

The Council has also been allocated a new grant of £781K in both 2013/14 and 2014/15 towards the programme and administrative costs of the Social Fund, which was formerly the responsibility of the Department for Work and Pensions (DWP). Charitable organisations have commented that this represents a reduction of around 14% against current spend.

Public Health

The responsibility for the majority of Public Health functions will transfer from NHS Primary Care Trusts to local authorities from 1st April 2013. The transferred functions are funded by a ring-fenced Public Health Grant. Blackburn with Darwen will receive £12.8M in 2013/14 rising to £13.1M in 2014/15.

Health funding for social care

The Council will also receive an allocation of £2.7M from the NHS under Section 256 of the 2006 NHS Act to support Adult Social Care in 2013/14. This includes funding previously provided under Section 256 of £1.9M, together with funding for reablement services. A condition of this funding transfer is that the Council agrees with its local health partners (Clinical Commissioning Group) the best use of this funding within social care and the outcomes that are to be expected from this investment, with regard to the Joint Strategic Needs Assessment for the local population and existing commissioning plans for both health and social care.

17. Pensions

The Local Government Pension Scheme (LGPS) is administered by Lancashire County Council and actuarial revaluations are undertaken every 3 years. The latest actuarial review was undertaken as at 31st March 2010, and required increased pension contributions during each of the following 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 18 years.

Local Context

18. Elected Members agreed the latest Corporate Plan on 30th August 2012. The Plan gives a clear statement of the Council's main priorities for the three year period 2012-2015.

19. *Council Objectives*

The Council's priority objectives for residents are:

- Creating more **jobs** and supporting business growth
- Improving **housing** quality and building more houses
- Improving **health** and wellbeing

- Improving outcomes for our **young people** – education and skills
- Supporting and helping the most **vulnerable people**
- **Making your money go further** – supporting households in difficult financial times through efficient and effective use of council tax

The Council aims to achieve these priority objectives by:

- Managing the **impact** of national reforms on residents and the Council – in particular changes to the welfare system, health services and education
- **Working together** with residents, businesses and partners to develop local solutions to problems
- **Delivering high quality services** by being well-managed, efficient and effective and continuing to deliver excellent services

Longer term priorities for the Borough are outlined in the twenty year “vision” for Blackburn with Darwen, which was developed by the Local Strategic Partnership in 2010. The priorities of Vision 2030 are:

- Prosperous areas
- Connected communities
- Clean places
- Safe and healthy people

The Council’s priority objectives help it to continue to contribute towards delivering this vision.

20. *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 People Strategy and the Carbon Management Plan.

21. *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 other key projects in the capital programme.

22. *What do people think?*

The Council has consulted widely with residents, partners and stakeholders to gain a consistent understanding of local priorities which goes back to the development of Vision 2030 during 2009.

Three major consultations have taken place between 2008 and 2010 with the Place survey in 2008, research consultation and engagement to develop the Local Strategic Partnership Vision 2030 and neighbourhood consultations during summer 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.

Following the Comprehensive Spending Review in 2010, the Council undertook a major consultation and engagement process with staff, local communities, partners and businesses 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 taken 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 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, 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, encouraging residents to support vulnerable neighbours; cutting back opening hours for leisure and cultural provision. Consultation with businesses felt there was a need to identify and prioritise 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.

In early 2012, the Council consulted on its 2012/13 revenue budget, building upon the consultation work undertaken for the 2011/12 budget outlined above. “Your Services, Your Call” events were held in both Blackburn and Darwen markets. Elected members and senior officers were available to speak to visitors about difficult decisions already taken, future issues and priorities. The events proved popular with more than 400 people taking part in one day. A number of other consultation events have also taken place with a range of groups, service users and partners, these included meetings with Adult Social Care groups and young people. A questionnaire was also available in many of the Council’s facilities and on its website and the Shuttle. Traditional meetings for various interest groups also took place ahead of the approval of the 2012/13 budget at Finance Council on 5th March 2012.

Overall, the results of the engagement and consultation work found that the issues identified in the 2010 Citizens Panel remained important, with particular emphasis on highway maintenance. An emerging theme from the 2012 consultations is the growing importance of ‘job prospects, wage levels and the cost of living’. This was the most important issue identified at the Blackburn Market event and also one of the top issues noted through the questionnaires. ‘Caring for and protecting children and adults’ and ‘clean streets’ were also identified as key issues in these consultation events.

To maintain an understanding of the current priorities of residents and key service user groups, a key question was included in the November 2012 Resident’s Survey. The responses, based on a representative sample of 1,100 residents from a telephone survey conducted during October and November 2012, confirmed the broad priorities for spending in the Borough. Residents were asked to rate previously identified priorities on a scale from low to high priority. Analysis of this data confirms that the leading four priorities for residents are Education, Community Safety, More Local Jobs, and Children’s Social Care, all of which were felt to be a continuing high priority by more than six in ten residents. Adults Social Care and Highways Maintenance followed with a little over four in ten feeling that they remain high priority, while Street Cleaning and Infrastructure for Business were a high priority for three in ten.

The Council has taken the views of all the groups into account when preparing its budgets. It is moving towards achieving its priorities, whilst not increasing council tax. 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 consulted extensively when developing its Local Council Tax Support scheme. This consultation also covered increased charges for second homes and empty properties, and asked respondents to identify areas for investment and disinvestment.

23. *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 will continue to undertake a comprehensive programme of service and cross cutting reviews to achieve this aim.

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

The front loaded reductions in government funding 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.

<u>Cost Pressures</u>

24. *2012/13 Budget Monitoring*

Current budget monitoring indicates ongoing cost pressures in a number of areas, particularly in respect of Adult's and Children's Services, and there are continuing income shortfalls as a consequence of the recession.

25. *Waste*

European Union legislation allotted member countries with permitted levels of waste that can be sent to landfill, identifying a target reduction of 70% to the 1990 levels of waste by April 2020.

Landfill costs consist of two distinct elements: the gate fee (the cost per tonne for physically dumping refuse on a licensed site) and landfill. 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 £64 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 may be subject to further increase in forthcoming budgets.

26. *ICT*

The ICT Strategy has resulted in significant investment requirements which have been built into the capital programme over the next three years. This is impacted by other developments such as increased requirements for mobile, flexible and home-working, within the framework of information governance, which will continue to be subject to the development of robust business cases and benefits realisation plans.

27. *Capital commitments and future investment*

The 3 year Capital Programme 2013/16 approved as part of the 2013/14 budget process included a number of longer term schemes with funding commitments beyond the current year. Only those schemes which are regarded as a high priority are included 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. There has been limited scope for introducing many new capital projects over the next three years.

28. *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 are establishing 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 continuing 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.

<u>Opportunities</u>

29. *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, provide opportunities not only to generate efficiencies but to maximise the use of external funding across the sub-region.

30. *Local Government Resource Review*

The Government has established a new financial framework for funding local authorities. This includes a scheme that allows councils to retain a proportion of their business rate income, subject to a system of tariffs and top-ups measured against a base figure for each authority. The financial implications of the new funding arrangements have been modelled and included within the budget for 2013/14, but it is likely that predictions of future income flows will be more volatile and less certain than in the past and will require monitoring closely.

31. *Welfare Reform and Localisation of Council Tax Benefit*

The Government's welfare reform proposals will result in housing benefits being amalgamated with other benefits when the universal credit scheme is introduced. The move will have significant implications in terms of the work required to undertake the changes, and the resultant adjustments to the workforce and the Capita contract as a consequence.

The Government has also passed on the responsibility for council tax benefit to local authorities. Each council has been required to determine a new scheme of council tax support, whilst continuing to support pensioners under existing arrangements, and at the same time to operate with a reduction in central government funding of 10% nationally. The implementation of the localised Council Tax Support scheme and its further development will present further challenges in 2013/14 and future years.

32. *NHS Reform and Transfer of Public Health Services*

The Government is reforming the National Health Service, resulting in the transfer of the public health function to the Council from April 2013. The Council has received an allocation of £12.776M Public Health Grant to fund the cost of the transferred function. The Government is also establishing Clinical Commissioning Groups which will have an impact on the Council, given the current arrangements to support the Care Trust Plus.

33. *Business Transformation*

The Council's approach to transformation, the previous transfer in-house of the ICT and HR services and the changes made to the senior management structure have helped to ensure that opportunities for efficiencies through changing business processes are delivered. A small team has responsibility for monitoring and assisting departments to achieve the business transformation required to enable them to deliver services with reduced resources.

34. *Procurement*

The Council's procurement strategy action plan is on course for delivery. The original P2P system has been replaced with a system integrated into the Council's finance system Masterpiece. The Procurement Champions Group is working to embed good practice throughout the Council. The Council is collaborating on several procurements with other authorities. This allows procurement officers to advise on major projects and strategic tenders.

The Council has embarked on the next phase to implement electronic matching of invoices to received orders and automating payment, which will generate significant savings across the Council and the strategic partnership. The Council intends to implement e-tendering systems and purchasing cards in 2013/14.

35. *Future Accommodation Requirements*

The key driver, around which the accommodation strategy is centred, is the vacation of leased buildings including that 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 Council is currently refurbishing 10 Duke Street to provide a modern office facility for Children's Services.

As a further step the Council has ended its lease at the Innovation Centre and the Beehive with staff re-locating to the Town Hall and the Tower Block.

36. *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 again for 2013/14, by providing a grant, equivalent to a 1% tax increase, payable for two years. The MTFS assumes that council tax increases of 1% per annum will be implemented from 2014/15 and 2015/16.

37. *Partnerships*

The Council and NHS Blackburn with Darwen established a Care Trust Plus for the purposes of joint commissioning. The Council and the Care Trust Plus further established an integrated management structure and shared services, particularly in Communication and Human Resources. The NHS reforms and the establishment of Clinical Commissioning Groups have resulted in the end of these arrangements. New arrangements are currently being established to coordinate the activities of the Council and the Clinical Commissioning Group.

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. Previous and current Local Government Financial Settlements have lead to reductions in funding for voluntary organisations. The Council is continuing to work with the organisations affected to manage the impact of these reductions.

The Council agreed with its strategic partner, Capita, a 10% reduction in contracting costs for services provided in 2011/12 and 2012/13. Capita has worked with the Council to action the necessary savings. The Council and Capita have transferred the HR service to the Council, with effect from 1st October 2012, to achieve further efficiencies and will work together to ensure services provided by Capita present value for money.

2012/13 budget monitoring position

38. The Council set a balanced budget in 2012/13, and an MTFS that ensured balances did not fall below a minimum of £4.0M over each of the next three years. The budget monitoring report to January Executive Board forecast balances to be around £8.8M at 31st March 2013.

Three Year Financial Forecast

39. 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.

	2013/14	2014/15	2015/16
	£ 000's	£ 000's	£ 000's
Reduction in Resources	0	7,632	5,917
Increase/(Reduction) in net expenditure	0	(7,632)	5,134
Budget shortfall / (surplus)	**0**	**0**	**11,051**

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 £390K) – although for 2013/14 the Government will provide a grant of £501K (equivalent to a 1% council tax rise based on the tax base prior to reduction in respect of the Council Tax Support scheme) if the Council does not increase council tax for that year
- Use of balances (see paragraph 41 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

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 2014/15, and that there is limited scope for adjusting the level of council tax, the Council has developed alternative scenarios based upon potential grant reductions for 2015/16. The three alternatives show budget shortfalls arising as shown in the table below:

		2015/16
		£ 000's
Best case scenario – grant funding remains the same		6,651
Likely scenario – a reduction in grant funding of 5%		11,051
Worst case scenario – a reduction in grant funding of 10%		15,451

The possible scenarios above are based on current levels of service including a fixed set of contingencies, and assuming a council tax increase of 1%. Clearly inflation and the level of future pay awards will be additional factors, but it is assumed that any other variations will affect the figures only at the margins.

40. 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 2015/16 has not yet been disclosed.	There is uncertainty with regard to future funding levels, although the Autumn Statement shows continued

Assumptions	Risks
	reductions in public sector funding. Details of future funding of local government are not yet available.
Spending Pressures	
Pay awards of 1% per annum.	Future pay awards not certain.
Price inflation generally at 2.2%, 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.	Capital receipts may not be as great as forecast. Capital costs may increase
Local retention of business rates	49% of any gains or losses in business rates income will be retained by / impact on the Council. A “safety net” mechanism provides additional funding for Councils who suffer a reduction greater than 7.5% in total business rates income. However, the Council could suffer a loss of income of up to £2.9M before a “safety net” payment would be triggered.
Localised council tax benefit support scheme can be contained within existing budgets.	Government has reduced funding by 10% nationally, but councils are expected to keep the support for pensioners unchanged, resulting in increased pressures on the scheme for other groups. Risk of increased non-collection of council tax as a consequence the new scheme.
Number of Academies / Free Schools does not vary.	If a significant number of schools opt to become Academies or Free Schools, there will be reduced government funding for centrally retained budgets, and these may not be able to be reduced to the same extent as funding reductions are applied.
Social Fund	Government provided allocations may prove to be inadequate.

RESERVES

41. The council's unallocated general fund reserves are currently predicted to be £7.2M at 31st March 2013, together with £20.1M earmarked reserves excluding those allocated for schools and other partner bodies. Earmarked reserves have been set aside for specific purposes and are not generally available to support the revenue budget, although some large reserves have been carried forward that were not utilised to the extent expected, and these could be used to meet short term funding pressures in 2013/14. These in particular include:

    - a reserve set up to meet non-recurring transformation costs and shortfalls in savings plans (£2.830M)
    - a reserve to fund future remodelling of services (£3.785M)
    - a reserve set aside for budgets carried over from 2012/13 (£4.751M)
    - a reserve set aside for specific projects or purposes (£3.566M)
    - contributions from developers towards works required as a condition of planning permissions (£0.813M)
    - an amount to meet increased demand for disabled facilities grants (£0.500M)
    - an amount to provide improvements to flood defence infrastructure (£0.412M)
    - an amount to provide against the insolvency risk of Municipal Mutual Insurance (£1.000M)
    - an amount to equalise the costs of the asylum seekers contract (£0.122M)
    - amounts put aside to support the initial phases of building schools for the future (£0.554M)
    - an amount received from Network Rail to support future maintenance to the new Wainwright Bridge (£0.506M)
    - an amount to support the corporate improvement and transformation programme (£0.218M)
    - an amount set aside for highways winter maintenance in the event of a budget shortfall (£0.368M)
    - an amount to support the review of services provided by the strategic partnership (£0.410M)
    - a few smaller reserves amounting to £0.291M.

    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 2012/13 budget was £5.0M, but owing to the increasing risks due to economic conditions and uncertainty of future income streams, it is it is recommended that this level be increased to £5.5M in 2013/14. The level of reserves will be reviewed annually.

    The level of reserves planned after taking account of the budget proposals for the next three years are as follows:

31st March 2014	£7.209M
31st March 2015	£7.209M
31st March 2016	£7.209M

CAPITAL STRATEGY

42. 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 around £455M. Maintaining these assets so they perform effectively and protect their value for future generations is a priority for the Council. Whilst the Council has developed an Asset Management Plan together with an associated Corporate Repair and Maintenance Programme to underpin this, the resources available to support this programme are stretched.

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, and this underpins the current Capital Programme. However, 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 modified with only a few projects being added to the three year programme.

The only significant additions to the Capital Programme this year are for schemes to invest where it is anticipated that ongoing revenue savings would be generated, such as in upgraded street lighting.

The Capital Programme is still dominated by the continuing Building Schools for the Future programme, but also reflects 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 Capital Programme has plans for capital investment of £73.0 million over the next 3 years. The main areas of expenditure are as follows:

Portfolio	£ million
Health and Adult Social Care	4.0
Children's Services	1.1
Environmental Improvement and Sustainability	2.5
Leisure, Culture & Young People	4.0
Neighbourhoods, Housing & Customer Services	1.4
Regeneration	25.5
Resources	11.4
Schools and Education	23.1
Total	**73.0**

In addition the Council has set aside a further £88.5M of capital resource over the three 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 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 or 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.

Whilst the Council's policy aims to maximise capital receipts through a review of existing property use, this is balanced against prevailing market conditions, which has resulted in some assets being retained until the property market improves. A rigorous approach has been taken 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 reviews the property portfolio on a continuing basis and identifies properties for sale.

Appendix D

APPENDIX 1

MEDIUM TERM FINANCIAL FORECAST 2013/14 TO 2015/16

Summary

	2013/14	2014/15	2015/16
	£ 000's	£ 000's	£ 000's
Resources			
Government (non-ringfenced) grants	104,206	95,539	89,378
Council tax	38,869	39,256	39,647
Less collection fund deficit for 2012/13	(400)	0	0
Contribution from reserves	0	248	101
Total resources	**142,675**	**135,043**	**129,126**
Net Expenditure			
Portfolio cash-limited budgets	126,770	113,873	113,689
Net income from support service recharges	(2,653)	(2,361)	(2,361)
Cost of capital investment	15,011	17,958	19,742
Central Contingencies	2,478	5,392	8,926
Parish Precepts	181	181	181
Contribution to reserves	888	0	0
Net expenditure	**142,675**	**135,043**	**140,177**
BUDGET SHORTFALL / (SURPLUS)	**0**	**0**	**11,051**

	2013/14	2014/15	2015/16
	£ 000's	£ 000's	£ 000's
Budget Plans			
Budget shortfall/(surplus) brought down	0	0	11,051
Further service reviews and efficiencies required	0	0	(11,051)
Balanced Budget position	**0**	**0**	**0**