

### **DRAFT MEDIUM TERM FINANCIAL STRATEGY 2014 to 2017**

#### **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 Asset Management Plan, 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 was reduced by £38.4 million or 28.8%. Although the Council achieved its saving targets for 2011/12 and 2012/13, some very difficult decisions had to be made about future levels of service provision.
6. In March 2012, in the absence of detailed financial information on the likely level of government funding 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 were approved by Council Forum on 31<sup>st</sup> January 2013.
7. The government published its Local Government Finance Report on 4<sup>th</sup> 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 faced then confirmed that budget reductions of up to £30 million would be required by

## Appendix F

2014/15. Finance Council in March 2013 approved a two year budget strategy for 2013/14 and 2014/15 which incorporated a savings programme of £29 million.

8. During 2013 the Chancellor published a Comprehensive Spending Round for 2015/16, which outlined further spending reductions. The Department of Communities and Local Government subsequently published consultation papers which contained illustrative figures for 2014/15 and 2015/16. These consultation papers set out potential further reductions in government funding of local authorities. In the case of this Council, the Settlement Funding Assessment was projected to fall significantly in 2014/15 and in 2015/16.
9. The Department of Communities and Local Government published its Local Government Finance Report on 5<sup>th</sup> February 2014, which included final settlement figures for 2014/15 and indicative figures for 2015/16. This shows a reduction in Spending Power of £7.8 million (5%) in 2014/15 and a further £6.9 million (4.7%) in 2015/16. However if the funding for Adult Social Care New Burdens and Better Care Fund in 2015/16 is excluded, the reduction in 2015/16 amounts to £13.4 million.

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.

### **Financial Outlook**

10. Latest forecasts for 2013/14 indicate that although spending pressures continue across a number of service areas, most portfolios are on course to deliver their two year savings targets, which were agreed in March 2013. Furthermore, Members and senior officers are already reviewing portfolio budgets in anticipation of the requirement to make significant budget cuts in 2015/16 and beyond. The three year budget forecast has been adjusted to take account of these projections.
11. 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 encouraging the growth of jobs and businesses.
12. 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)

#### **Priorities**

13. 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**

14. 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
15. 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.

16. 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. The government has published a financial settlement which includes final figures for 2014/15 and indicative amounts for 2015/16, however details for the third year of the medium term plan have not yet been provided. Significant changes to the financial framework governing Local Authorities from 1<sup>st</sup> April 2013 are only just “bedding in” and the impact continues to be closely monitored. Thus, there remains considerable uncertainty about the level of resources available in future years.
17. 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
  - 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
  - working in partnership with Blackburn College on the development of a new town centre leisure facility.

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:**

#### **18. Local Government Finance settlement**

The final Local Government Finance settlement was published on 5<sup>th</sup> February 2014 and included details of funding allocations for 2014/15, together with indicative figures for 2015/16.

The 2013/14 settlement introduced 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 affected the source and the distribution of funding and the risk profile facing the Council. This made and continues to make 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 and 50% (the central share) paid over to government. At the commencement of the business rates retention (BRR) scheme, an amount of “start-up funding” was calculated for the Council based on the relative needs



## Appendix F

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". In subsequent years the BRR element of the Settlement Funding Assessment (SFA) is uplifted for inflation and any reduction in funding is taken from RSG.

	2014/15 £M	2015/16 £M
RSG	48.3	34.5
Local share of business rates baseline (49%)	22.2	22.8
Top-up	17.5	18.0
<b>Total Settlement Funding Assessment</b>	<b>88.0</b>	<b>75.3</b>

Any gain or reduction in business rates compared to the amount included in the SFA is passed on to the three parties - 50% to the government, 1% to the Fire authority and 49% retained by the Council. A "safety net" mechanism provides additional funding for Councils that suffer a reduction greater than 7.5% in total business rates income. However, the Council could suffer a loss of income of up to £2.98 million in 2014/15 before a "safety net" payment would be triggered.

In addition to the funding aspects, business rates income is accounted for within the Collection Fund. For the first time in 2013/14, the Council is required to project the likely surplus/deficit on the Fund at 31<sup>st</sup> March and include this figure in its budget calculations for the following year.

### *Local Council Tax Support scheme*

A Local Council Tax Support scheme was developed, consulted on and was approved by Council Forum on 31<sup>st</sup> January 2013. The scheme replaced 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. The Council has not amended the scheme for 2014/15.

### *Government funding*

The sources of non-ringfenced government funding are shown in the table below:

	2013/14 adjusted £M	2014/15 £M	Change £M	Change %
RSG	59.0	48.3	- 10.7	- 18.1%
Top Up	17.2	17.5	+ 0.3	+ 1.7%
Other non-ringfenced grants	16.8	16.7	- 0.1	- 0.5%
<b>Total</b>	<b>93.0</b>	<b>82.5</b>	<b>- 10.5</b>	<b>- 11.3%</b>

## Appendix F

	2014/15 £M	2015/16 £M	Change £M	Change %
RSG	48.3	34.5	- 13.8	- 28.6%
Top Up	17.5	18.0	+ 0.5	+ 2.9%
Other non-ringfenced grants	16.7	16.9	+ 0.2	+ 1.2%
<b>Total</b>	<b>82.5</b>	<b>69.4</b>	<b>- 13.1</b>	<b>- 15.9%</b>

### *Council Tax*

It should be noted that should Finance Council agree to no increase in Council Tax in 2014/15, then the authority will receive Council Tax Freeze Grant of £0.49 million (equivalent to a 1% increase in Council Tax before adjusting for Local Council Tax Support) in 2014/15 and 2015/16. This MTFS is based on the assumption that the Council will receive additional revenue through the council tax freeze grant.

### *Education funding*

In December 2012 the government announced that a new grant, the Education Services Grant (ESG), will replace the LA Block element of Local Authority Central Spend Equivalent Grant (LACSEG) for Academies and the corresponding element of local authority revenue funding from 1<sup>st</sup> April 2013.

For 2013/14, the Council's revenue funding allocated via DCLG was reduced by £3.40 million, whilst only £3.02 million was re-allocated to the Council via the new ESG. Due to changes in pupil numbers attending local authority maintained schools and the conversion of schools to academy status the Council will receive £2.91 million for the Education Services Grant for 2014/15 (a reduction of £0.11 million).

### Dedicated Schools Grant

Local authorities will continue to be allocated funding through the Dedicated Schools Grant (DSG) in three notional blocks:

- *Schools Block*
- *High Needs Block*
- *Early Years Block*

The notional blocks will not be individually ring-fenced but will be ring-fenced in total. Current estimates indicate that the DSG allocation for 2014/15 will be £125.33 million (2013/14 allocation was £125.59 million). The changes in funding primarily relate to:

- Reduction in funding due to a decrease in the number of pupil attending local authority maintained schools - £2.08 million
- Additional funding for expansion of 2 year old provision - £1.65 million
- Funding for post 16 SEN provision - £0.17 million

### Pupil Premium

Funding for the Pupil Premium is allocated to local authorities to passport directly onto schools to support the education of the most deprived and vulnerable learners. It is estimated that the Pupil Premium that the Council will receive for 2014/15 will be £8.8 million (£6.8 million in 2013/14).

### *Council Tax Support Funding*

Within the 2013/14 settlement, the council received £10.9 million grant in respect of the new Council Tax Support Scheme. This new grant support represented a reduction in funding of around £1.8 million or 12.5% compared to Council Tax Benefit Subsidy received by the Council in 2012/13. The government has stated that this funding remains unchanged in 2014/15 and 2015/16, although it no longer appears as a separate item in the settlement figures.

The relevant departments (DWP/DCLG) have not yet published figures for grants relating to the administration of local council tax support and housing benefit for 2015/16.

### *Social Fund*

The Council was also allocated a new grant of £0.78 million in 2013/14 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 represented a reduction of around 14% against current spend. This grant reduces to £0.77 million in 2014/15. The government has not published details of this grant in its indicative 2015/16 settlement.

### *Public Health*

The delivery of Public Health responsibilities transferred from NHS Primary Care Trusts to local authorities from 1<sup>st</sup> April 2013, and are funded by a ring-fenced Public Health Grant. The Council received £12.8 million grant in 2013/14, which will rise to £13.1 million in 2014/15. The allocations for 2015/16 are not yet known but are expected to be at least £13.5 million, before an expected increase to include the part year transfer of Children's Community Health Visitor Services from October 2015.

### *Funding for Integrated Health and Social Care*

In order to promote greater integration between health and social care, the spending review in June 2013 included the announcement of a £3.8 billion pooled budget from 2015/16, known as the Better Care Fund (BCF), which brings together existing funding from both local authorities and the NHS. There is also a share of an additional £200 million fund available in 2014/15 for set-up costs, distributed using the same allocation formula used for the section 256 agreement currently in place.

The Council will receive an allocation of £2.7 million 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 £1.9 million, together with funding for reablement services. The Council is working with health partners in the Clinical Commissioning Group (CCG) to develop a 5-year Strategic Implementation Plan that sets out 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.

### *Implications of the Care Bill*

Following the Dilnot report, the government plans to change the arrangements for funding the cost of social care, including the way contributions made by individuals towards the cost of their care are calculated. The Council will receive a New Burdens grant of £0.908 million in 2015/16 to recognise the additional costs of planning for and implementing these changes across the Council and these costs are expected to rise significantly from 2016/17 with the full year effect of changes, and implementation of the care costs 'funding cap'.

### 19. 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 31<sup>st</sup> March 2013, and required increased pension contributions during 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 19 years.

### Local Context

20. The corporate plan was agreed by elected members on Thursday, August 30, 2012. It sets out, for residents, staff and partners, the Council's top priorities for the next three years, and describes how the Council will continue to improve services and prepare for the difficult financial challenge ahead.

### 21. *Council Objectives*

The Council's six 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
- Safeguarding the most **vulnerable people**
- **Making your money go further** – supporting households in difficult financial times through efficient and effective use of council tax

To support the delivery of these priority objectives the Council will be:

- **Working together** with residents, businesses and partners - developing local solutions via local problem solving

- Managing the **impact** of national reforms on residents and the Council – particularly around the welfare system, health services and educational provision
- Delivering **high quality services** by being well-managed authority which is fit for the future, efficient and effective and continuing to use the best possible business models 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:

- i. Prosperous areas
- ii. Connected communities
- iii. Clean places
- iv. Safe and healthy people

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

### 22. *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, Asset Management Plan, ICT Strategy, People Strategy and the Carbon Management Plan.

### 23. *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.

### 24. *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 took 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.

Following the Comprehensive Spending Review in 2010, the Council undertook a major consultation and engagement process with staff, local 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 took a range of forms and utilised the Citizens’



## Appendix F

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 website and a series of opportunities for staff input to the process of developing local priorities.

Groups were asked to identify specific ideas for making savings. Consultation with businesses highlighted a need to identify and prioritise investment that would bring a return for the public sector and a need to undertake impact assessment of proposed cuts to funding before a rational judgement could be made.

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. There were a number of other consultation events with a range of groups, service users and partners, including meetings with Adult Social Care groups and young people. A questionnaire was also available in many of the Council's facilities on its website and the Shuttle. Traditional meetings for various interest groups also took place ahead of the approval of the 2012/13 budget.

Overall, the results of the engagement and consultation work found that the issues identified in the 2010 Citizens' Panel remained important. However, an emerging theme from the 2012 consultations was 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 Residents' 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 confirmed that the leading four priorities for residents were 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.

Consultation was also carried out during October and November 2012 to engage with residents, organisations and groups that work in health and wellbeing, so that their views could be incorporated in the Blackburn with Darwen Health and Wellbeing Strategy. The strategy outlines how the Health and Wellbeing Board will work together with its partners over a three year period from 1<sup>st</sup> April 2013 to help deliver improvements to residents' health and wellbeing by ensuring that the

right support, care and services are provided to meet their current and future needs.

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.

The views of all these groups have been taken into account when preparing the Council's two year budget strategy for 2013/14 and 2014/15. The Council is moving towards achieving its priorities, whilst not increasing council tax, and is focusing its resources on meeting the economic challenges facing this borough and improving the skills of its residents. Further consultations will continue to inform budget decisions for 2015/16 and beyond.

Current consultations are open, requesting resident's views in respect of:

- Proposals for a new business rate scheme offering up to 100% discount to new or expanding businesses taking an empty shop unit in Blackburn town centre. This is part of a wider scheme to revitalise the town centre by reducing the number of empty properties and increasing the diversity of town centre offer.
- Blackburn with Darwen's LSP Citizen Engagement Strategy, which will promote collaborative working across the Borough and develop effective engagement with citizen's over the next three years.

### 25. *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. 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 continuing reductions in government funding will affect the 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**

### 26. *2013/14 Budget Monitoring*

Current budget monitoring indicates that most cost pressures are being managed within portfolio cash limits. The main exception is Children's Services, particularly budgets in respect of commissioned placements, adoption fees and special

guardianships orders. The department continues to promote strategies to monitor closely these demand led budgets.

### 27. *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.

### 28. *Capital commitments and future investment*

The 3 year Capital Programme 2014/17, approved as part of the 2014/15 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.

### 29. *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.

## **Opportunities**

### 30. *External Funding*

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.

Significant external funding under the Building Schools for the Future (BSF) is continuing to support a key element of the Council's capital programme. Partnership working in relation to the Blackburn Leisure Centre and Cathedral Quarter schemes is bringing significant capital investment to the Borough from other public sector and private sector sources.

### 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 Council has already taken on the responsibility for council tax benefit from 1<sup>st</sup> April 2013. The implementation of the localised Council Tax Support scheme and its further development continues to present further challenges in future years.

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

The government has reformed the National Health Service, resulting in the transfer of Public Health responsibilities to the Council, funded by a ring-fenced Public Health Grant. A single Clinical Commissioning Group (CCG) has been formed to commission health services in Blackburn with Darwen from 1<sup>st</sup> April 2013. The Council is working with health partners in the CCG to plan for the best use of Better Care Fund resources from 2015/16. In addition, the Council needs to plan for the implications of the Care Bill, which also takes effect from 2015/16.

### 33. *Business Transformation*

The Council's approach to transformation, including 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. The Council will continue to provide resources to monitor and assist departments in achieving the business transformation required to generate identified savings in future years.

### 34. *Procurement*

The Council's procurement strategy action plan is on course for delivery. The Council is collaborating on several procurements with other authorities, which allows procurement officers to advise on major projects and strategic tenders.

The Council has implemented a new computerised procurement and commitment accounting systems, which is integrated with the finance system, Masterpiece. Electronic matching of invoices to received orders and automated payment is now in place, generating significant savings across the Council and the strategic partnership. The Council has begun to implement e-tendering systems in 2013/14 and is developing plans to deploy purchasing cards in 2014/15.

### 35. *Future Accommodation Requirements*

The Council has progressed well with its strategy of vacating leased buildings. During 2013/14, staff have moved out of the Innovation Centre and the Beehive and relocated to the Town Hall and the Tower Block. The Exchange has also been vacated with staff moving into the refurbished 10 Duke Street, providing a

modern office facility for Children's and Adult Services, and facilitating town centre regeneration linked to the existing markets site. The Council will continue to review 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.

### 36. *Council Tax*

Comparisons with other unitary authorities show that Blackburn with Darwen's average Council Tax payable per dwelling is low, being in the fourth quartile, although its' spending is in a higher quartile. The government is encouraging councils to freeze council tax increases again for 2014/15 by providing a grant payable for two years. The MTFS assumes that a council tax increase of 1% will be implemented from 2016/17.

### 37. *Partnerships*

The government wishes to see greater integration between health and social care in order to find ways to tackle unsustainable increases in the demand for health and social care services in future years. The authority is working with health partners in the CCG to develop a 5-year Strategic Implementation Plan that sets out the best use of Better Care Fund resources within social care and the outcomes that are to be agreed from the investment in the first 2 years.

The Council, as part of the LSP, is canvassing the views of residents to inform the LSP's Citizen Engagement Strategy. The strategy will promote collaborative working across the Borough and develop effective engagement with citizens over the next three years.

The Council continues to work with its strategic partner, Capita, to ensure services provided by Capita present value for money. The fifteen year contract is due to end in summer 2016.

### **2013/14 budget monitoring position**

38. The Council set a balanced budget in 2013/14, and an MTFS that ensured balances did not fall below a minimum of £5.5M over each of the next three years. The budget monitoring report to March Executive Board forecast balances to be around £11.2 million at 31 March 2014.

### **Three Year Financial Forecast**

39. The Council's revenue position is affected by two main issues, which are the amount of funding available and the level of net spending. The current estimated figures are summarised cumulatively in the table below and detailed in Appendix 1.



## Appendix F

	2014/15	2015/16	2016/17
	£ 000's	£ 000's	£ 000's
Reduction in Resources	0	12,634	16,134
Increase/(Reduction) in net expenditure	0	6,459	11,949
<b>Budget shortfall / (surplus)</b>	<b>0</b>	<b>19,093</b>	<b>28,083</b>

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

- Increases in council tax – a 1% increase raises approximately £398,000. However, if the Council does not increase Council Tax in 2014/15, the government will provide a grant of £493,000 for a period of two years (equivalent to a 1% council tax rise based on the tax base prior to reduction in respect of the Council Tax Support scheme). A further grant of £492,000 is included in the indicative settlement figures for 2015/16 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 the light of the indicative settlement for 2015/16, the financial constraints it will create and the requirement to reduce net expenditure by an estimated £19.093 million, the Leader and the Executive Members are undertaking a comprehensive review of the allocation of resources. This includes a detailed review of all expenditure and income budgets, contractual commitments, property holdings and staffing structures. The review will be set in the context of the Council's statutory responsibilities and corporate priorities, and will include:

- A bottom up approach to develop a budget for both statutory services and those which are the Council's priorities.
- A focus on those large services where there are savings and opportunities for changes
- Working towards a net nil/cost neutral position for commercial services
- The implementation of channel shift and digital automation encouraging people to self-serve on-line whilst providing support for those who cannot access the internet
- A review of the Council's long term loans portfolio and an assessment of the requirement for investment in the infrastructure of the borough over the long term.

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 2015/16, 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 2016/17. The three alternatives show budget shortfalls arising as shown in the table below:

## Appendix F

	2016/17
	£ 000's
Best case scenario – grant funding remains the same	24,352
Likely scenario – a reduction in grant funding of 11%	28,083
Worst scenario – a reduction in grant funding of 15%	30,033

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
<b>Resources</b>	
The formula grant settlement for 2016/17 has not yet been disclosed.	There is uncertainty with regard to future funding levels, although the Autumn Statement shows continued reductions in public sector funding. Details of future funding of local government are not yet available.
<b>Spending Pressures</b>	
Pay awards of 1% per annum.	Future pay awards not certain.
Price inflation generally at 2.8%, 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 £2.98 million before a "safety net" payment would be triggered.
Localised council tax benefit support scheme can be contained within	Risk of increased non-collection of council tax as a consequence the

## Appendix F

Assumptions	Risks
existing budgets.	new scheme. The local scheme may be reviewed in future.
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 in 2014/15 and end in 2015/16.

### RESERVES

41. The Council's unallocated general fund reserves are currently predicted to be £11.1M at 31<sup>st</sup> March 2014, together with £18.5M 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 2014/15. These in particular include:

- a reserve set aside for various projects (£5.099 million)
- a reserve set aside to fund potential deficits from council tax and business rates (£1.782 million)
- a reserve to fund future remodelling of services (£4.685 million)
- a reserve set up to meet non-recurring transformation costs and shortfalls in savings plans (£2.680 million)
- a reserve set aside for support to Complex Needs and Transition (£1.000 million)
- an amount to support the review of services provided by the strategic partnership (0.461 million)
- an amount received from Network Rail to support future maintenance to the new Wainwright Bridge (£0.506 million)
- contributions from developers towards works required as a condition of planning permissions (£0.605 million)
- an amount to provide against the insolvency risk of Municipal Mutual Insurance (£0.430 million)
- a few smaller reserves amounting to £1.265 million.

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 for 2014/15 is £5.9 million, although this will be reviewed annually.

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

31 <sup>st</sup> March 2015	£11.062 million
31 <sup>st</sup> March 2016	£11.062 million
31 <sup>st</sup> March 2017	£11.062 million

### **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 £483 million. 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 by assessing and evaluating 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.

As the Building Schools for the Future programme nears an end, the Capital Programme increasingly 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, including significant use of Department for Transport grant funding.

The Capital Programme has plans for capital investment of £122 million over the next 3 years. The main areas of expenditure are as follows:

<b>Portfolio</b>	<b>£ million</b>
Health and Adult Social Care	3.5
Children's Services	1.2

## Appendix F

Environment	17.9
Leisure, Culture & Young People	5.0
Neighbourhoods, Housing & Customer Services	2.2
Regeneration	63.9
Resources	7.7
Schools and Education	20.6
<b>Total</b>	<b>122.0</b>

In addition the Council has set aside a further £23.1 million 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 include 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.



## MEDIUM TERM FINANCIAL FORECAST 2014/15 TO 2016/17

Summary

	2014/15	2015/16	2016/17
	£ 000's	£ 000's	£ 000's
<b>Resources</b>			
Government (non-ringfenced) grants	82,530	69,455	65,048
Business rates retained locally	22,291	22,642	23,683
Council tax	39,928	39,928	40,326
Less collection fund deficit for 2013/14	(936)	0	0
Contribution from reserves	1,448	602	70
<b>Total resources</b>	<b>145,261</b>	<b>132,627</b>	<b>129,127</b>

<b>Net Expenditure</b>			
Portfolio budgets including portfolio pressures	120,358	119,630	119,626
Net income from support service recharges	(2,653)	(1,291)	(1,291)
Cost of capital investment	24,680	26,090	28,173
Central Contingencies	2,695	7,110	10,521
Parish Precepts	181	181	181
Contribution to reserves	0	0	0
<b>Net expenditure</b>	<b>145,261</b>	<b>151,720</b>	<b>157,210</b>

<b>BUDGET SHORTFALL / (SURPLUS)</b>	<b>0</b>	<b>19,093</b>	<b>28,083</b>
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	2014/15	2015/16	2016/17
	£ 000's	£ 000's	£ 000's
<b>Budget Plans</b>			
Budget shortfall/(surplus) brought down	16,200	19,093	28,083
Further service reviews and efficiencies required	(16,200)	(19,093)	(28,083)
<b>Balanced Budget position</b>	<b>0</b>	<b>0</b>	<b>0</b>

2014/15 savings and efficiencies were identified in the budget strategy approved in March 2013, and are currently being implemented