

**REPORT OF: EXECUTIVE MEMBER RESOURCES ON  
BEHALF OF THE LABOUR GROUP****TO: COUNCIL****DATE: 3 March 2014****PORTFOLIOS AFFECTED: ALL****WARDS AFFECTED: ALL**

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**SUBJECT: Revenue Budget 2014/15, Medium Term Financial Strategy and  
Capital Programme 2014-17**

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**1. PURPOSE**

- 1.1 To recommend to Finance Council the Budget Strategy and the proposals for the Revenue Budget 2014/15, the indicative overall revenue budget for 2015/16 Medium Term Financial Strategy (MTFS) and Capital Programme for 2014-17 to underpin the priorities agreed at Policy Council on 5<sup>th</sup> December 2013. Finance Council is asked to note, that if the proposals for the Revenue Budget 2014/15 are approved, there will be no increase in the level of Council Tax set by this Council for the services it provides itself.

**2. RECOMMENDATIONS**

- 2.1 That the proposals for the Revenue Budget for the financial year 2014/15 and the indicative overall budget 2015/16 position outlined in this report be approved.
- 2.2 That the proposals for the Capital Programme for the period 2014/15 to 2016/17 as outlined in this report be approved.
- 2.3 That the council notes that the approved Capital Programme includes the Cathedral Quarter scheme and
- i. reverts to the Head Lease option if it is financially advantageous to do so and,
  - ii. provides Forward Funding for the office block with a secured loan of up to £6.1M to the developer on a commercial basis for a period of no more than 12 months, should this be required
  - iii. subject to (ii) agree the Executive Board approve the Heads of Terms for any loan
  - iv. that the Council finances the Forward Development Funding from Borrowing if required.
  - v. that if required the Executive Board receive a detailed financial appraisal at a future meeting.
- 2.4 That the Medium Term Financial Strategy 2014-17 be approved with the final version to be published incorporating the approved budget proposals.
- 2.5 That subject to recommendation 2.1 outlined above that the Council be

requested to approve the consequent Council Tax levels detailed in the formal resolution of the Director of Finance's report.

- 2.6 That the Council approves the Pay Policy Statement prepared in accordance with the requirements of Section 38 of the Localism Act 2011 to have effect for the year 2014/15 unless replaced or varied by the Council, as set out in Appendix G.
- 2.6 Adopt the current list of performance measures and targets which supports performance management of the Council's Corporate Plan priorities and delegate final sign off of the Corporate Plan to the Leader of the Council and Chief Executive following the development of remaining performance measures and targets for portfolio priorities through consultation with Executive Members.

### **3. BACKGROUND**

- 3.1 As reported previously, this Council has faced unprecedented severe reductions in funding following the Comprehensive Spending Review (CSR) 2010, and subsequent Local Government Finance Settlements. The 2010 and 2011 Local Government Finance Settlements published details of the funding allocated to individual local authorities for 2011/12 and 2012/13, (the first two years of the 2010 CSR period). Blackburn with Darwen Council (BwD) received government funding from Formula and Specific Grants of £94.8M in 2012/13 whereas it had previously received £133.2M in 2010/11; a reduction in government funding of £38.4M or 28.8% in just two years.
- 3.2 Following receipt of the Local Government Finance Settlement in 2010, the Council took swift and decisive action, approving early budget savings options in January 2011. The Council also undertook extensive public consultation and developed a two year budget strategy with detailed budgets subsequently approved at meetings of Council in January and March 2013.
- 3.3 This early and decisive action taken in January 2011 has enabled the Council to deliver its savings targets for 2011/12 and 2012/13. In March 2012, in the absence of detailed information on the likely finance settlements and associated government grant funding levels, 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 £27M by 2014/15. Based on this Executive Members and senior officers then prepared a range of budget options, amounting to reductions of around 20% across all portfolios which would enable a balanced budget to be set in March 2013.
- 3.4 Following CSR 2010, the government fundamentally changed the financial framework governing Local Authorities from April 2013 including:
  - The development of Local Council Tax Support Schemes replacing the national Council Tax Benefit scheme (and with overall funding reduced by 10%).
  - The development of a Business Rates Retention Scheme allowing local authorities to benefit from increases locally in Business Rates income but sharing the risks of any reductions.

- Changes to the funding of schools and education, with additional funding streams being transferred out of Formula Grant and included in Dedicated Schools Grant (DSG) or a new specific grant known as the Education Services Grant (ESG).
- The transfer of responsibility for the majority of Public Health functions (and the associated funding) from NHS Primary Care Trusts to Local Authorities.
- The transfer of responsibility (with a reduced level of associated funding) for the Crisis Loans and Community Care Grants elements of the Social Fund from the Department of Work and Pensions (DWP) to Local Authorities.

3.5 Local Authorities and their residents have and will continue to be affected by other government reforms such as:

- The introduction of Universal Credit and other changes to housing benefit including the "Welfare Cap" and "Bedroom Tax".
- Significant structural changes to the NHS including the creation of Clinical Commissioning Groups (CCG's).

The government reforms currently being progressed have a significant cumulative effect in places such as Blackburn with Darwen.

Similarly, despite significant overall improvements in our schools' performance since unitary status in 1998, increasing numbers of academies and free schools are being encouraged with no consideration for pupil place planning and the impact on demand for places, including within brand new BSF (Building Schools for the Future) schools.

Likewise, Health reforms forced the expensive and unnecessary break up of the 'Care Trust Plus' joint arrangement between the PCT and the Council which was delivering efficiencies, shared management, other shared services and improving outcomes. However the government is now promoting more health and social care integration with the establishment of the Better Care Fund.

In addition to the costs of implementation and transition, perhaps of most concern is the devolving of financial risk to local authorities without sustained transitional support. This is exemplified and highlighted by the ending of specific identifiable funding for local welfare responsibilities and the lack of clarity from the government about this.

3.6 In December 2012, the Chancellor announced in his Autumn Statement that further cuts would be required to reduce the deficit nationally. He set overall plans for public spending in 2015/16 and 2016/17 in line with spending reductions over the CSR 2010 period. In addition Local Authorities were required to find further savings of 2% in 2014/15. The Department of Communities and Local Government (DCLG) subsequently published the provisional Local Government Finance Settlement on 19<sup>th</sup> December 2012. Further information and details including revisions and amendments emerged during January. The final Local Government Finance Settlement was published in February. The funding reductions and pressures the Council faced confirmed that budget reductions of up to £30M would be required by 2014/15. On 31<sup>st</sup> January 2013, Council once again considered

and approved a number of early budget savings options, amounting to £13.1M in 2013/14 and £26.3M in 2014/15. Steps to implement these proposals commenced during February 2013. Finance Council approved additional reductions of £3m in March 2013 and set the two year budget strategy for 2013/14 and 2014/15.

- 3.7 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 both 2014/15 and in 2015/16.
- 3.8 The Department of Communities and Local Government published the provisional Local Government Financial Settlement on 18th December 2013 and the final settlement on 5th February 2014. This shows a reduction in Spending Power of £7.8M in 2014/15 and £6.87M 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 £13.4M. The Council's two year budget strategy incorporated a substantial reduction in funding in 2014/15 and thus there are no significant changes to the 2014/15 budget. The Council will however be required to achieve further efficiencies, service reductions and increases in revenue in 2015/16. Once unavoidable pressures such as inflation and demographic changes are taken into account, we estimate there will be a budget shortfall or gap of £19m were no action to be taken.
- 3.9 This paper therefore sets out the Labour Group's proposed Revenue Budget, Capital Programmes and associated Council Tax level for 2014/15 together with the MTFS 2014/17 and indicative overall revenue budget for 2015/16 updated to reflect the local government financial settlement, funding uncertainty and other key risks. This reflects the corporate plan priorities agreed at Policy Council in December 2013 and the wide-ranging consultation undertaken with a variety of stakeholders.

#### **4. RATIONALE**

- 4.1 The council is required to set a balanced Revenue Budget for the financial year 2014/5.

#### **5. KEY ISSUES**

##### **5.1 Local Government Finance Settlement.**

The provisional Local Government Finance Settlement was published, on 18<sup>th</sup> December 2013 and unfortunately set out more extensive reductions in government funding for 2015/16 than envisaged even in the Council's MTFS worst case scenario. Revisions and amendments have been published during January as have details of other specific grant awards and funding allocations.



The final Local Government Finance Settlement for 2014/15 and indicative settlement for 2015/16 was published on 5 February 2014 with very little change from the provisional figures.

### *Spending Power*

Using their adjusted baseline for 2013/14 the government has identified that BwD would face a reduction in its "Spending Power" of 5.03% in 2014/5.

The government based this calculation on the following information:

	2013/14 Adjusted Baseline £M	2014/15 Spending Power £M	Change in Spending Power £M
Council Tax	38.72	38.63	-0.09
Settlement Funding Assessment (Revenue Support Grant and Business Rates)	97.90	88.03	-9.87
Council Tax Freeze Grant 2014/15	0.00	0.49	+0.49
Local Welfare Provision	0.78	0.77	-0.01
New Homes Bonus	0.38	0.90	+0.52
Flood Defence	0.03	0.03	0.00
New Homes Bonus – Returned Funding	0.33	0.13	-0.20
Benefit Admin.	1.27	1.12	-0.15
Council Tax Support New Burdens	0.12	0.12	0.00
Public Health Grant (ringfenced)	12.77	13.13	+0.36
Funding for Social Care (NHS)	2.74	3.50	+0.76
Other	0.15	0.54	+0.39
<b>Total</b>	<b>155.19</b>	<b>147.39</b>	<b>-7.80</b>
			-5.03%

The government has produced a 2014/15 baseline which has been amended to allow comparisons to be made with the indicative figures for 2015/16. Using this adjusted baseline for 2014/15 the government has identified that

BwD would face a further reduction in its "Spending Power" of 4.62% in 2015/16.

The government based this calculation on the following information:

	2014/5 Adjusted Baseline £M	2015/16 Spending Power £M	Change in Spending Power £M
Council Tax	38.63	38.54	-0.09
Settlement Funding Assessment (Revenue Support Grant and Business Rates)	88.03	75.32	-12.71
Council Tax Freeze Grants 2014/15 and 2015/16	0.49	0.98	+0.49
Local Welfare Provision	0.77	0.00	-0.77
New Homes Bonus	0.90	1.41	+0.51
Flood Defence	0.03	0.02	-0.01
New Homes Bonus – Returned Funding	0.13	0.34	+0.21
Council Tax Support New Burdens	0.12	0.00	-0.12
Public Health Grant (ringfenced)	13.13	13.13	0.00
Better Care Fund (NHS)	5.19	10.81	+5.62
Adult Social Care New Burdens	0.91	0.91	0.00
Other	0.54	0.54	0.00
<b>Total</b>	<b>148.87</b>	<b>142.00</b>	<b>-6.87</b>
			-4.62%

The government's calculation of spending power includes increased funding of £5.62M for the Better Care Fund. The majority of this funding is already committed. If the Better Care Fund is excluded from the calculations there is a reduction of £12.49M or 8.69%.

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

The tables above show the government's calculations for the local share of

business rates, council tax and New Homes Bonus. The Council's budget and MTFS include forecasts we have prepared based on current more up to date information.

### *Council Tax*

Should Finance Council agree to no increase in Council Tax in 2014/15, then the authority will receive Council Tax Freeze Grant of £0.49M assumed in the table above (equivalent to a 1% increase in Council Tax) in 2014/5 and 2015/16.

### *Education funding*

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

For 2013/14 this council's revenue funding allocated via DCLG was reduced by £3.37M. Of this reduction approx. £3.02M was re-allocated to us via the new Education Services Grant.

Due to changes in pupil numbers attending LA Maintained Schools and conversion of more schools to academy status this council will receive £2.91m for the Education Services Grant for 2014/15 (a reduction of £0.11m).

### Dedicated Schools Grant

Local Authorities (LAs) 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 DSG for 2014/15 will be £125.33m (2013/14 allocation was £125.59m). The changes in funding primarily relate to:-

- Reduction in funding due to a decrease in number of pupils attending LA maintained schools (-£2.08m)
- Additional funding for expansion of free 2 year old provision (+£1.65m)
- Funding for post 16 SEN provision (+£0.17m)

### Pupil Premium

Funding for the Pupil Premium is allocated to LAs to passport directly onto schools to support the education of the most deprived and vulnerable learners. It is estimated that the Pupil Premium that Blackburn with Darwen LA will receive will be £8.8m (2013/14 allocation was £6.8m).

### *Social Fund*

The government provided a new grant of £781k in 2013/14 towards the programme and administrative costs of the Social Fund (formerly the responsibility of the DWP). This reduces to £770k in 2014/15 and unexpectedly no separate grant is shown for 2015/16.

### *Public Health*

This council received £12.8M in 2013/14 for delivery of public health responsibilities. This will rise to £13.1M in 2014/15. The allocations for 2015/16 are not yet known but are expected to be at least £13.5m, before the 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*

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 spending review in June 2013 included the announcement of a £3.8bn pooled budget nationally from 2015/16 now known as the Better Care Fund (BCF) which brings together existing funding from local authorities and largely from the NHS. There is also a share of an additional £200m fund available in 2014/15 for set-up costs; distributed using the same allocation formula used for the section 256 agreements currently in place.

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 this funding within social care and the outcomes that are to be agreed from the investment in the first 2 years. The Health and Wellbeing Board will be asked to approve the draft proposals for the use of a minimum of £10.8m of pooled budgets locally, before 4 April 2014.

There are six national conditions of funding to be met, with 26% of the funding at risk if joint plans cannot be agreed by 4 April 2014 and successfully implemented before April 2015 based on agreed measures.

### *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. These changes and their implications have been the subject of a separate report to Executive Board. The Council will receive a New Burdens grant of £908k in 2015/16 to recognise the additional costs of planning for and implementing these changes across the Council and this is expected to rise significantly from 2016/17 with the full year effect of changes, and implementation of the care costs 'funding cap'. The additional funding may not be sufficient based on initial estimates.

### *Business rates*

Before April 2013, under the system of national non-domestic rates (NNDR) business rates were collected by local authorities and paid into a central government pool. The overall income was then redistributed to authorities via the formula grant system.

Whilst rateable values and the rate in the pound (multiplier) are still determined by the valuation office and central government, and the income is still held within the formula grant system, business rates growth now is shared, with 49% of growth being retained by this council and 1% by the Fire Authority up to a limit beyond which a levy would be payable to central government.

However, reductions in business rate income are also shared, subject to a safety net. The safety net is funded nationally from levies raised.

The detailed workings of the system are not yet fully understood, with new information being issued on an almost daily basis. In addition there are a large number of rating appeals outstanding both locally and nationally. Any reductions in rates as a result of a successful appeal within the boundaries of this authority falls on the Collection Fund with 49% of this "cost" being borne by the council. It will be some time before we are able to fully understand how changes in our local business rate collection will impact on the Council's budget.

The government has also announced some temporary changes to business rates. These include a cap of 2% on the annual increase in 2014/15 and the extension of small business rate relief. Local authorities will receive a S31 grant to compensate for the loss of revenue resulting from these initiatives.

### *Financial risks*

As a result of these changes to the financial frameworks governing local authorities, this Council now faces increased financial risks, both if the number of people claiming discounts in respect of Local Council Tax Support alters, and also should the receipts collected in respect of business rates change. The Director of Finance takes risks into account when assessing and recommending the minimum level of reserves each year.

## 5.2 2016/17 and future years

Through successive Autumn Statements and Spending Reviews the Chancellor has indicated that there will be spending cuts in public services until 2020 as he aims to generate a budget surplus by that date.

The Council also continues to face the uncertain impact of the government reforms including the Local Government Resource Review, Welfare Reform, and changes to education and the NHS during those year

As in previous years the Council has therefore prepared on the same basis as in the 2013-16 MTFS the following three scenarios:



- Best case assuming government funding is maintained at 2015/16 levels during 2016/17
- A likely case assuming government funding reduces by a further 11% during 2016/17
- A worst case scenario assuming government funding reduces by a further 15% during 2016/17.

It is anticipated that the Council will be required to find further additional savings of between £5.259M and £10.940M in 2016/17.

### 5.3 Budget Update

The 2013-15 two year budget strategy was approved by Finance Council in March 2013.

The Budget Strategy reflects:

- The Local Government Finance Settlement
- The Local Government Resource Review
- Welfare Reform
- Education Reform
- NHS Reform
- The budget reductions strategy approved by Council in January 2013 and March 2013
- Pay and price inflation
- Changes in specific grant funding
- Financial impact of legislative changes
- Full year effect of approved changes
- Revenue consequences of capital investment
- Known corporate and portfolio budget pressures

### 5.4 Budget Strategy

Following the delivery of the two year strategy 2011-13, the Council developed a further two year budget and Medium Term Financial Strategy 2013-15. This incorporated a further significant reduction in government funding and also the Council's considered response as set out in the Budget Savings Proposals approved by Council Forum in January 2013 and further "savings" amounting to £3m, approved by Finance Council in March 2013.

This budget strategy is based on the following principles:

- To reflect the views and priorities of those whom we have consulted extensively and ensure we meet the requirements of the residents of the Borough when faced with substantial budget reductions.
- To invest effectively where possible to deliver our priorities as agreed by Policy Council
- To protect where possible front line services to members of the public with further savings in managerial, administrative and support service functions.
- To address key financial pressures arising from demographic and

demand changes

- To continue to invest in key capital schemes to support good asset management and regeneration of the borough.
- To improve value for money through efficiencies and invest to save options.
- To maximise partnership working especially where this can realise service benefits and cashable efficiencies
- To develop digital services for our communities and thus improve accessibility and availability.
- To maintain the minimum level of balances as recommended by the Director of Finance.
- To ensure that the Council has a sustainable and robust financial position in future years.

The Council must set a balanced budget for 2014/15 and consequent level of Council Tax.

## 5.5 Budget and Service Reductions

Following the approval of the MTFS in 2013 and the expectation of further significant funding reductions, Executive Members and Officers reviewed all services and prepared options to deliver budget reductions of approximately 20% over 2 years. Wherever possible Executive Members and officers sought to mitigate the impact on the residents of this borough. Council Forum in January 2013 approved a substantial programme of budget reductions with further reductions approved at Finance Council in March 2013.

These included the following efficiencies:

- Rationalisation of office accommodation.
- Improved procurement and contract management
- Re-negotiation of existing contracts
- Reduced management in all services
- Reductions in business support services
- A more commercial approach to income generation

The Council has “transformed” some services leading to improved services for residents at a more affordable cost. The Council has :

- Increased the use of telehealth and telecare in Adult Social Care
- Continued to grow the reablement service in Adult Social Care
- Developed supported living accommodation in Children’s Services

- Reconfigured services provided to Schools
- Continued to modernise Customer Services with the introduction of new ICT systems

Further changes have been made to the delivery of some services to improve cost effectiveness. These include:

- The transfer of the HR and Payroll Services back to the Council from Capita in late 2012
- Shared services with other public sector bodies
- The creation of innovative arrangements for service delivery with voluntary, charitable and community bodies
- The development with the private sector of new improved facilities in Adult Social Care
- The development of child care services by the private sector in recent years.

Invest to Save initiatives which also mitigate future cost increases and financial risks have been approved. The most significant related to Street Lighting and Highways Network Recovery. All Invest to Save initiatives are subject to a detailed options appraisal and business case.

The scale of these further budget reductions in 2013/14 and 2014/15 combined with those already implemented in 2011/12 and 2012/13, will inevitably lead to a significant reduction in the services provided to the residents of this borough. Council Forum and Finance Council agreed reluctantly to proceed with a programme covering all services in January to March 2013.

The savings agreed amounted to £13.1M in 2013/14 increasing to £29.3M in 2014/15. There has been good progress made in achieving this savings programme during 2013/14 and consequently the 2014/15 budget strategy is largely unchanged.

## 5.6 Impact on Staff

It is unfortunate but inevitable that now there will continue to be further job losses, including compulsory redundancies in the coming months. Therefore some staff have already been, and some will need to be put formally at risk of redundancy whilst consultation is undertaken and options developed. Where staff are at risk of redundancy, it can take up to six months to generate savings. Open applications for ER/VR (early retirement and voluntary redundancy) will continue to be accepted and agreed where there is a financial saving to be made and all vacant posts will be reviewed with a view to deleting wherever possible.

Clearly implementing budget reductions of this scale in addition to those

already implemented in recent years presents a huge challenge. It will mean that the Council will continue to undertake radical reviews across all service areas to determine the extent to which, or whether, services continue to be provided by the Council.

## 5.7 Capital Programme 2014-17

The Capital Programme for 2014-17 is also recommended to this Finance Council for approval. There is a substantial capital investment programme, which is important for the long term future of the borough. However, the programme is reduced from previous years with minimal investment in areas of substantial need given the withdrawal of supported borrowing by the government and the ending of some grant funding programmes. The Council also continues to place an emphasis on regeneration and economic growth.

The Capital Programme includes the following major infrastructure schemes:

- Pennine Reach
- Investment in leisure facilities
- Invest to Save Initiatives in Street Lighting and Highways (subject to an options appraisal and business case)
- Cathedral Quarter

The Capital Programme to be approved includes the significant Cathedral Quarter regeneration and development scheme. Various reports have been presented to Executive Board over recent years, updating members on progress of this scheme and approving various aspects of the development. These include reports on 13 December 2007, 10 February 2010, 8 December 2011 and 13 June 2013. The Council is the accountable body for all the major funding streams and retained an option to purchase the office block, with the capital programme being prepared accordingly. Given the changing and improving financial markets and funding availability, it now appears to be financially advantageous for the Council to revert to the head lease option potentially on more favourable terms and in the absence of a long term funder for the office block being secured, the Council will provide forward development funding for the office block by way of a secured loan on commercial terms to the developer should this be required. The forward development funding will be financed from borrowing. Council is therefore asked to approve a secured loan of up to £6.1M to the developer on commercial terms for a period of no more than 12 months, should this be required and to delegate authority to Executive Board to agree the Heads of Terms of this loan if required. A detailed financial appraisal will be provided at a future meeting of Executive Board.

These major infrastructure schemes will contribute towards the achievement of the Council's key priority of creating more jobs and business growth, during their construction, by improving transport networks, and by enhancing the town centre.

## 5.8 Corporate pressures

Every year we must assess and address funding pressures on the budget at

corporate level. Clearly the most significant pressure in 2014/15 is the continuing reduction in government funding outlined above. However the Council faces other significant pressures, as follows:

#### Adult Social Care

During 2013/14 there have been continuing demographic pressures on Adult Social Care Services and this will continue to be the case in 2014/15 and 2015/16.

#### Children's Safeguarding and Commissioning

There have been increased costs arising from the commissioning of placements to safeguard the most vulnerable children and young people in recent years. Despite effective case management and the successful initiative to recruit foster carers, these costs have proved difficult to contain. Moreover, these pressures are anticipated to continue, not least due to the impact of the current economic situation on vulnerable families, and the impact of Welfare Reform.

#### Energy

The Council is continuing to face substantial increases in costs for energy which are procured at a national level through the Government Procurement Service to ensure effective purchasing power.

#### Treasury Management, Financing Costs and Investment Income

In the past the Council has benefitted from significant amounts of income on all investments. Nationally interest rates fell dramatically in 2009 and have remained at historically low levels. There is also considerable uncertainty about the timing of any anticipated future increase in interest rates. In recent years the Council has made significant savings through deferring borrowing and using its internal cash balances. The Council took some significant borrowing during 2012/13 and 2013/14 and expects to continue to do so in 2014/15 to fund capital investments. Any change in interest rates will affect both the financing costs of any new loans as well as the interest received on any investments the Council makes.

#### Waste Services

The Council is funding increased costs due to the need to comply with European Union Legislation to reduce the level of waste sent to landfill. As a result, the cost of landfill, whether gate costs or landfill tax, is increasing.

#### Pension Contributions

The Local Government Pension Scheme has been subject to the triennial revaluation this year. Progress is being made with regard to reducing the deficit, but not as quickly as planned. This is partly because as member councils are reducing staffing, there are fewer active staff members upon which contributions are being based. It has been agreed therefore that in



future, that element of the employer's contribution which funds the deficit will be paid as a fixed annual amount and not as a percentage of pay.

The pension rate in 2013/14 was 16.6% of which 4.4% was in respect of the deficit and 12.2% for current staff. For 2014/15 through to 2016/17 the rate will be 12.4% for current staff, with a fixed sum towards deficit reduction. Part of the fixed amount will continue to be funded from external grants and contributions, the most notable of which is the contribution made by schools. There is a net increased cost in pension contributions of around £1 million.

## 5.9 Service Pressures and Budget Reductions

### Health and Adult Social Care

In 2013/14 Adult Social Care has faced another challenging year as a result of increasing demand arising from demographic changes. The portfolio established and implemented plans to achieve reductions estimated at £4.0M in 2013/14 with further planned savings of £8.4M in future years. The portfolio has already achieved its 2013/14 savings target and £2.1m of its 2014/15 target. There may be a delay in the planned closure of residential care homes during 2014/15 though the closures in the current year occurred earlier than expected.

### Children's Services

In the last year this portfolio has managed the pressures it has faced, whilst ensuring that the most vulnerable of our children are protected. Despite this the portfolio has been unable to contain the increased costs within its cash limit. It identified a further programme of budget savings of £5.5M by 2014/15. The portfolio has already achieved £2.6m of its savings target of £5.5m. It will be difficult to achieve reductions in the cost of commissioning placements unless there is a reduction in the numbers of children in care.

### Environment

This portfolio is required to deliver services which are of importance to citizens with particular pressure arising in waste management. The portfolio developed a programme of budget reductions amounting to £1.9M by 2014/15. The portfolio has already achieved £1.5m of its savings target in 2013/14.

### Neighbourhoods, Housing and Customer Services

The portfolio has identified service reductions of £0.9M by 2014/15. The portfolio has already achieved £0.6m of its savings target. Some savings will not now take place until 2015/16 and 2016/17 due to delays in the DWP's programme for the implementation of Universal Credit.

### Leisure, Culture and Young People

The portfolio continues to deliver on health and wellbeing through the continued investment in the Refresh programme. The portfolio has adopted a more commercial approach and generated additional income in the Leisure

Centres and King George's Hall. The service developed a programme to achieve budget reductions of £1.6M by 2014/15. The portfolio has already achieved £0.8m of its 2013/14 and 2014/15 targets. Opening hours of facilities in Blackburn Town Centre have been extended as part of the Town Centre Strategy which aims to create a vibrant, dynamic and welcoming environment.

### Schools and Education

This portfolio is faced with the challenge of evaluating and implementing the government's proposals to reform education and schools, including the establishment of academies and free schools. Despite this the portfolio aimed to achieve budget reductions of £1.6M. The portfolio has already achieved £1.1m of its savings targets.

### Regeneration

There is an increase in the cost of the concessionary travel scheme due to increased demand. The cost of Highways claims are also increasing.

The portfolio is also leading on key initiatives which aim to attract more visitors to Blackburn Town Centre. These include reductions in charges for car parking in the late afternoon/evening and on weekends.

The portfolio has identified budget reductions of £2.6M by 2014/15 and the portfolio has achieved £0.8M of its savings targets. This does not as yet include any savings from the invest to save programmes on street lighting and network recovery as contracts have only recently been let and works have just begun.

### Resources

The portfolio has continued to face cost pressures from the Council's property portfolio as the impact of the economy affects rents. There is also an increasing demand for Legal Services in social care. It faces significant changes in future years because of the government's plans for Welfare Reform. In January 2013, the portfolio identified service reductions of £3.8M principally from reduced staff and non-staff costs, increased fees and charges, reductions in the cost of the HR service, following its insourcing, and reductions in ICT and building maintenance costs. The portfolio has achieved £2.8M of its savings targets. Some 2014/15 savings will be deferred until 2015/16 and 2016/17 as there have been delays and changes to the DWP's programme for the implementation of Universal Credit. The future of services currently provided by Capita has not yet been determined.

The portfolio is also undertaking several Invest to Save initiatives. These vary in scale from a debt recovery officer to the procurement and implementation of modern e-procurement, cash receipting and Human Resources systems.

### Summary

The Council faced and continues to face substantial reductions in government funding as well as other corporate and service pressures. The

Council therefore continues to face a considerable financial challenge if it is to set a balanced budget as required by statute. The Council has for many years had robust corporate governance and management arrangements which have led to good financial management, the delivery of efficiencies and planned investment in priorities. The Council is already implementing improvements to these business systems and processes. This provided a strong foundation enabling it to successfully meet the difficult challenges it will face in the coming months and years.

#### 5.10 Fees and Charges

Executive Members in conjunction with Chief Officers have reviewed all fees and charges. Council has given delegated authority to Chief Officers in consultation with the relevant Executive Members and Director of Finance to agree changes where required.

#### 5.11 Investment in Delivering our Priorities

Policy Council in December 2013 confirmed the following strategic objectives and corporate priorities:

- Creating more jobs and support business growth
- Improving housing quality and building more houses
- Improving health and wellbeing
- Improving outcomes for young people – education and skills
- Supporting 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 will achieve these objectives by:

- Managing the impact of national reforms for residents and the Council
- “Working with you”
- Delivering high quality services

These priorities clearly reflect the challenges the Council must meet in transforming and downsizing its services in the light of the reductions in government funding, and the risk the Council faces in so doing. However the Council remains committed to meeting the needs and aspirations of its citizens.

#### 5.12 Meeting the financial challenge in 2015/16.

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 £19m, 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. This will be set in the context of the Council's statutory responsibilities and corporate priorities.

This 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.

The Leader and Executive Members will consult with elected members, stakeholders and residents and will report to Council in due course.

#### 5.13 Level of Reserves

The Director of Finance is recommending a minimum level of reserves of £5.9M to this Finance Council for 2014/15.

#### 5.14 Council Tax

The assumptions made within these budget proposals for 2014/15 are that the Council will accept the further Council Tax Freeze Grant for 2014/15.

#### 5.15 MTFS

The MTFS 2014-17 has been refreshed and updated. It now incorporates the indicative Local Government Finance Settlement for 2015/16. However in the absence of the Comprehensive Spending Review any figures can only be indicative and consider a range of potential scenarios for government funding beyond 2015/16.

#### 5.16 Conclusion

The proposed revenue budget strategy will continue to focus on delivering on the Council's priorities and will try to minimise the impact of spending cuts with the delivery of quality efficient and effective services to and for the citizens of this borough, whilst ensuring the council operates within the financial constraints imposed by central government.

Through the "Your Call" programme, the Council is working with Communities and helping people to help themselves. In doing so it is transforming the services it delivers and its relationship with its residents.

## Appendices

- Appendix A - Budget Summary 2014/15
- Appendix B - Budget Proposals / Variations 2014/15
- Appendix C – Budget Forecast 2015/16
- Appendix D – Details of 2014/15 budget variations
- Appendix E - Capital Programme
- Appendix F - Medium Term Financial Strategy
- Appendix G - Pay Policy Statement

## **6. POLICY IMPLICATIONS**

- 6.1 The budget process is the mechanism by which the Council allocates resources so that it can achieve its policy objectives agreed at Policy Council.

## **7. FINANCIAL IMPLICATIONS**

- 7.1 The budget process will determine the level of net revenue expenditure for the Council in 2014/15, the capital programme and the level of council tax, together with indicative figures for the following two years.

## **8. LEGAL IMPLICATIONS**

- 8.1 The Council is legally obliged to set a balanced budget. The Local Government (Standing Orders) (England) (Amendment) Regulations 2014, which came into force on 25 February 2014 require local authorities to record in the minutes of a budget decision meeting the names of persons who cast a vote for or against the decision or who abstained from voting.
- 8.2 With regard to the Cathedral Quarter regeneration and development scheme, the Council has a general power of competence under the Localism Act 2011 which entitles it to make the provision of a commercial loan under such circumstances. There are also EU regulations which can be used as a guide to ensure commerciality (predominately in respect of setting a commercial interest rate) which will assist in minimising any implication that State Aid is being granted. Any exercise of these powers must be undertaken reasonably in the context of the financial risk to the Council in making this loan and the security of the payments. As with any commercial loan, the Council would need to consider a number of factors before deciding to proceed. These factors could include valuation of the asset offered as security, due diligence checks and completion of a commercial loan agreement encompassing matters such as the terms of the loan, payment of interest and development performance requirements. In addition to this, various expert advisors would be consulted.

## **9. RESOURCES IMPLICATIONS**

- 9.1 Decisions taken during the budget process will affect the resources allocated to all service areas.

## **10. EQUALITY IMPLICATIONS**



10.1 All proposals where appropriate will be subject to an Equality Impact Assessment before implementation.

## **11. CONSULTATIONS**

11.1 We have 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 our 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 is 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. 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 Finance Council meeting.

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 add to our existing robust understanding of the priorities of residents and key service user groups we included a key question 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 identify where previously identified priorities lay on a priority scale from low to high priority. Analysis of this data confirms that the leading four priorities for our 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. Adult Social Care and Highways maintenance followed with a little more than four in ten feeling that they remain a 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's priorities are set out in its Corporate Plan. The Council has also consulted extensively when developing its Local Council Tax Support Scheme which was approved on 31<sup>st</sup> January 2013. This consultation also covered increased charges for second homes and empty properties and asked respondents to identify areas for investment and disinvestment.

During 2013/14, the Council has consulted extensively with businesses and residents to develop a Town Centre Strategy for Blackburn. We have worked with businesses to create a Business Improvement District in the Town Centre. Consultation is currently taking place with businesses on proposals for local discretionary business rate relief to encourage business growth in Blackburn Town Centre. There has also been widespread consultation with local residents, businesses and stakeholders when developing the Local Plan. The Leader is also working with residents through the Your Call and 100 voices initiatives.

The Council has undertaken further consultation before setting its 2014/15 budget at this Finance Council meeting, including the 100 Voices Forum at King George's Hall in January 2014 and the NNDR Consultation in February 2014.

CONTACT MEMBER: Councillor Andy Kay, Executive Member Resources

DATE: 18<sup>th</sup> February 2014