

### **DRAFT MEDIUM TERM FINANCIAL STRATEGY 2012 to 2015**

#### **Purpose**

1. The purpose of a Medium Term Financial Strategy (MTFS) is to set the financial framework for the Council for the medium term, considering the Council's strategic objectives and major projects. This includes the impact on revenue budgets, capital programme, reserves and potential future Council Tax levels based on funding projections and assumptions.
2. The Council is continually improving its approach to medium term planning and the MTFS is very significant in setting out the projected high level financial position and the strategic choices, risks and opportunities facing the Council.
3. The MTFS forms a key link between financial and business planning, both reflecting and influencing the key plans of the Council, including the Corporate Plan, and other plans such as the Medium Term Property Strategy, Asset Management Process, ICT Strategy, Treasury Management Strategy, Carbon Management Plan and the People Strategy. The Capital Strategy is, in addition, embodied within the MTFS.
4. The Comprehensive Spending Review (CSR) published in 2010 provided clear indications of significantly reduced public expenditure over the four year period to 2015. The subsequent local government financial settlements provided figures for 2011/12 and 2012/13, but no indications have yet been provided for the following two years. Significant reductions in grant funding, heavily front-loaded, has required the Council to make some very difficult decisions about the level of services that can continue to be provided.
5. Last year the Council agreed a two year budget and Executive Members have worked with Directors during this last autumn period to review budgets, modifying where necessary in order to maintain a balanced budget position for 2012/13.

The council is committed to consulting with its residents, businesses, stakeholders and partners. The Council has also consulted when setting its council tax. This MTFS aims to re-align scarce resources on key priorities which have developed following public consultation.

#### **Financial Outlook**

6. Latest forecasts for 2011/12 indicate that spending pressures continue across a number of service areas, and the three year budget forecast has been adjusted to take account of these changes.
7. This MTFS is being prepared against the backdrop of a difficult economic climate, although there is some optimism for improvement. There will be continuing impact upon businesses and citizens of the borough which the council will need to respond to. The council's strategy will be to prepare a budget that will help support

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those in hardship whilst ensuring jobs and businesses are protected as much as possible.

8. Some key areas for consideration into the medium term therefore include:
  - a. level of Council reserves expected
  - b. continuing pressures across demand-led services
  - c. full year cash flow implications of major capital schemes
  - d. the achievement of significant reductions in service levels
  - e. the Local Government Resource Review
  - 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**

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

### **Principles**

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

- periodic consideration to reprioritisation and realignment of existing resources between and within portfolios to ensure delivery of the Council's key priorities
- focus on customer care and quality services against a backdrop of reducing resources
- valuing employees
- managing future Council Tax levels and increases to reflect central government indications and local circumstances
- sound financial management, adhering to best practice
- devolved budget management to Executive Members (with portfolio) and service Directors
- retaining adequate reserves based on risk assessment and local experience and knowledge
- continually striving to demonstrate value for money in line with stated priorities and identified need
- 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

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- planning for and managing change, whether related to need, demand for services, technological advances, legislative, local aspirations or resource allocation
  - good risk management and corporate governance within the authority and throughout our partnership arrangements
  - recognising that in order to deliver the above, sufficient resources are made available to support services
  - pursuing innovative partnership working arrangements where this will deliver improved services and/or efficiencies
11. The delivery of the strategy over the medium term will depend largely on how successful the Council is in reprioritising services, realigning resources to meet its key priorities and delivering efficiencies within financial restraints imposed by Central Government. This may mean re-engineering the way in which services are provided or, indeed, who provides them.
12. There is inevitably a dependency on the level of resources allocated by central government through the settlement in enabling the Council to meet its priorities whilst also meeting its objectives for Council Tax. Whilst the government published a two year financial settlement, details for the following two years have not yet been received, and indeed future funding will depend upon the detail that flows from proposals in the Local Government Resource Review regarding funding of local councils and retention of non-domestic rates collected. Thus there remains considerable uncertainty about the level of resources available in future years.
13. Members and officers are committed to successful partnership working, reflected in the existing partnership with Capita, closer working across Pennine Lancashire through PLACE and Regenerate Pennine Lancashire, particularly on housing and economic development issues (including the joint building control service with Burnley), the strength of the Local Strategic Partnership (LSP) and the Local Public Service Board (LPSB). Blackburn with Darwen has led the way forward in joint health working in first establishing a commissioning Care Trust Plus and then further by setting up a shared management structure between the Council and NHS Blackburn with Darwen Care Trust Plus. Partnership working, where it can be effective and is in the best interests of service users, is to be considered as a potential option for other areas.

### **National Considerations:**

#### 14. Local Government Finance settlement

The final local government finance settlement was published on 31<sup>st</sup> January 2012 and confirmed the provisional figures that had been issued the year before.

Indicative figures for 2013/14 and 2014/15 have not been provided, although any figures will now be subject to the changes being proposed in the Local Government Resource Review. This makes longer term financial planning and the development of a robust MTFS more difficult.

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It is to be expected, based on the CSR, that further significant reductions will continue to be required over the 2 years following 2012/13, although not as great as those that have been made over the two year period 2011/12 and 2012/13.

### *Government funding*

The final settlement figures are shown in the table below:

	2011/12 £M	2012/13 £M	Change £M	Change %
Formula Grant (adjusted)#	83.8	77.3	-6.5	-7.8%
Non-ringfenced Specific Grants	18.3	18.7	+0.4	+2.2%
Council Tax	50.3	49.2	-1.1	-2.6%
Council Tax freeze grant 12/13		1.3	+1.3	+100.0%
Transition Grant	2.9	-	-2.9	-100.0%
<b>Total</b>	<b>155.3</b>	<b>146.5</b>	<b>-8.8</b>	<b>-5.7%</b>
Total (excluding Council Tax)	105.0	97.3	-7.7	-7.3%

# includes council tax freeze grant for 2011/12 included in formula grant for 2012/13

The financial settlement is largely as expected for 2012/13, although a few of the smaller government grants have not yet been allocated.

### *Council Tax*

In addition to this, should Finance Council agree to no increase in Council Tax in 2012/13, then the authority will receive Council Tax Freeze Grant of £1.25M (equivalent to a 2.5% increase in Council Tax), but only for the one year. This MTFs is based on the assumption that the Council will receive additional revenue through the council tax freeze grant.

### *Schools funding*

An adjustment was made to formula grant in 2011/12 based on national assumptions about the potential development of new academies which would see funding transfer from local authorities to academies. The government reduced the Council's formula grant by £455k from 2011/12 on the assumption that there will be some new academies somewhere across the country.

Following a judicial review co-ordinated through the Local Government Association (LGA), the government has agreed to review reductions made to authorities' formula grant relating to 2012/13. The actual impact of this on Blackburn with Darwen can only be assessed once further details are received from central government.

Schools-related expenditure is funded by Dedicated Schools Grant (DSG) and a Pupil Premium grant that was introduced from April 2011. A national consultation on how DSG is allocated to councils will be concluded during the 2012/13 financial year with a view to implementing any changes in April 2013. Provisional

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figures for DSG and Pupil Premium Grant (based on current funding methodologies) are shown below:

### Dedicated Schools Grant

<b>Indicative figures</b>	<b>£M</b>
2011/12	125.78
2012/13	124.21
2013/14	125.15

### Pupil Premium

Pupil Premium funding is expected to increase in 2012/13 as government plans to increase total funding through this grant to all local authorities from £625 million in 2011/12 to £1.25 billion by the end of 2014/15.

### *Social Care Funding*

The government indicated that it is providing additional funding for social care via the NHS, totalling £2bn nationally by 2014/15. The Care Trust Plus (CT+) locally will receive £1.9M in 2012/13 for social care with the intention that it will be 'passported' to the local authority to meet additional growth in social care costs and preventative measures. This has been formally agreed.

## 15. Carbon Reduction Commitment

This new initiative is a mandatory "cap and trade" scheme targeted at carbon emissions from large, non-energy intensive organisations. An energy consumption threshold will be set, and organisations are expected to purchase sufficient allowances to cover these each year. The intention is that the scheme will encourage investment in energy efficiency to reduce fuel costs and the cost of purchasing allowances. The financial year 2011/12 will be a base year, with the first purchase of allowances being in April 2012, estimated at £300,000, but as this payment will relate to carbon usage during 2011/12, the cost will be charged to the 2011/12 accounts.

## 16. 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 last year, and required increased pension contributions during each of the next three years, which have been factored into the MTFS. These contributions have been assessed on the basis of recovering the estimated pension fund deficit over the next 19 years.

### Local Context

17. Policy Council last December agreed the strategic framework for the Council and the key priority areas, as set out in paragraph 18 below.

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

### 18. Council Objectives

The 2030 vision is broken down into two broad Council objectives which reflect what we are trying to achieve:

*Community outcomes – reflecting the long term priorities of the 2030 Vision*

- Prosperous
- Connected
- Clean
- Safe
- Healthy

*Organisational outcomes – reflecting the short / medium term priorities for the Council and residents*

- Managing Risk
- Delivering Transformation

### 19. Links across other plans

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

### 20. Equality Impact Assessments

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

### 21. What do people think?

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

Three major consultations have taken place between 2008 and 2010 with the Place survey from 2008, research consultation and engagement to develop the Local Strategic Partnership Vision 2030 and neighbourhood consultations during the summer of 2010. Each of these three has contributed strongly to the Council's understanding of local priorities.

Last year the Council in partnership with Care Trust Plus undertook a major consultation and engagement process with staff, local people communities, partners and business to establish in more detail priorities for service provision at a

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time when Council and other public sector resources were being reduced significantly. The consultations took a range of forms, utilising the Citizen's Panel, public meetings, ward based community discussions, priority setting sessions with service users for each of the key council portfolios; setting up the YouGov, YouChoose, accessible through the Council Website and a series of opportunities for staff input to the process of developing local priorities.

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

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

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

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

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

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

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

The Council has 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 have been held in both Blackburn and Darwen markets. Elected members and Senior officers were available to speak to visitors about difficult decisions already taken, future issues and priorities. The events proved popular with more than 400 people taking part in one day. A number of other consultation events have also taken place with a range of groups, service

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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.

The Council has taken the views of all the groups into account when preparing its budgets. It is moving towards achieving its priorities, whilst keeping council tax increases low. The Council is focusing its resources on meeting the economic challenges facing this borough and improving the skills of its residents.

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

In its role as Community Leader the Council considers how the organisation should be positioned to ensure and sustain the future delivery of quality, value for money services whilst operating within the financial constraints imposed by the Local Government Finance Settlement. The Council is currently completing a comprehensive programme of service and cross cutting reviews to achieve this aim.

These reviews have been addressing the quality and scope of provision of service and whilst the Council strives to ensure accessibility, quality, value for money and affordability, this is increasingly difficult to achieve against a background of reducing resources.

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

### **Cost Pressures**

#### 23. *2011/12 Budget Monitoring*

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

#### 24. *Waste*

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

Landfill costs consist of two distinct elements: the gate fee (the cost per tonne for physically dumping refuse on a licensed site) and landfill. The landfill gate fee was re-negotiated in April 2010 and the Council managed to obtain a competitive price for the next 10 years which provides some certainty. Current UK landfill tax is set at £56 per tonne and will be escalated every year by £8 until and including 2013 when it will reach £72 per tonne; this series of escalation may be subject to further increase in coming budgets.

The Council is currently undertaking a procurement exercise which is likely to involve building a waste facility for a contractor to manage.

### 25. *ICT*

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

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

The 3 year Capital Programme 2012/15 approved as part of the 2012/13 budget process included a number of longer term schemes with funding commitments beyond the current year. All capital schemes have been reviewed during the year and only those schemes which are regarded as a high priority have been retained in the programme. Furthermore, the Government is providing no more supported borrowing approvals (where borrowing costs are “supported” by government grant), although there continues to be some limited capital grants, largely for highways and Schools. As a consequence, there is little scope for introducing many new capital projects over the next three years.

### 27. *Investment in Physical Assets*

To sustain our operational and community assets investment will be required, but resources will restrict this investment in the medium term. Reviews 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**

### 28. *External Funding*

Significant external funding under the Building Schools for the Future (BSF) initiative has been largely maintained for the first four schools but with a sizeable

reduction in funding for the rest of the programme, and many other external sources of funding have been reduced or eliminated.

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

### *29. Local Government Resource Review*

There are proposals currently being drawn up to substantially change the way local authorities are funded. Ultimately this will result in a withdrawal of revenue support grant to be replaced with a scheme that allows councils to retain their business rate income, subject to a system of tariffs and top-ups measured against a base figure for each authority. The financial implications are difficult to model, not least because there are no details about exactly how the scheme will operate, but it is likely that the scheme will result in predictions of future income flows being more volatile and less certain than in the past.

### *30. 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 proposals also pass on the responsibility for council tax benefit to local authorities. Each council will be required to determine a new scheme of council tax support, whilst continuing to support pensioners under existing arrangements, and at the same time to operate with a reduction in central government funding of 10% nationally. The speed at which changes are to be made will present significant challenges.

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

The government is proposing to reform the National Health Service. The government intends to transfer the public health function to local authorities from April 2013 and has published indicative figures with an allocation of £11.567M to this Council as a Public Health Grant, offset by the transfer of expenditure. The government is also progressing to establish Clinical Commissioning Groups which will have an impact on the Council, given the current arrangements to support the Care Trust Plus.

### *32. Business Transformation*

The Council's approach to transformation, the previous transfer in-house of the ICT Service and the changes made to the senior management structure have helped to ensure that opportunities for efficiencies through changing business processes are delivered. A small team has been established to monitor and assist departments to

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achieve the business transformation required to enable them to deliver services with reduced resources.

### 33. *Procurement*

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

The Council will then embark on the next phase to implement electronic matching of invoices to received orders and automating payment, which will generate significant savings across the Council and the strategic partnership.

### 34. *Future Accommodation Requirements*

The key driver, around which the accommodation strategy is centred, is the vacation of leased buildings including that currently occupied by the Children's Services department. This site is important for further town centre regeneration linked to the existing markets site. To retain The Exchange, which was only intended to be a temporary arrangement, would involve significant investment in order to continue occupation and is not a feasible option. The Council has decided to refurbish "Telephone House" in Duke Street to provide a modern office facility for Children's Services.

As a further step the Council will end its lease at the Innovation Centre with staff from Adult Social Care re-locating to the Town Hall Tower Block.

### 35. *Council Tax*

Comparisons with other unitary authorities show that average Council Tax payable per dwelling is low being in the 4<sup>th</sup> quartile even though our spending is in a higher quartile. The government is encouraging councils to freeze council tax increases again for 2012/13, by providing a grant, equivalent to a 2.5% tax increase, but payable this time only for one year. The MTFS assumes that council tax increases of 2.5% per annum will be implemented from 2013/14.

### 36. *Partnerships*

The Council and NHS BwD established a Care Trust Plus for the purposes of joint commissioning. The Council and the Care Trust Plus further established an integrated management structure and have developed shared services, initially in Communication and Human Resources. The NHS reforms and the establishment of Clinical Commissioning Groups will lead to changes in these arrangements.

The Council as part of the LSP has entered into a contract with Third Sector Organisations and supports the principle of 3 year funding arrangements with Third

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

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

### **2011/12 budget monitoring position**

37. The Council set a balanced budget in 2011/12, and an MTFs that ensured balances did not fall below a minimum of £4.5M over each of the next three years. The budget monitoring report to February Executive Board forecast balances to be just below £7.0M at 31 March 2012.

### **Three Year Financial Forecast**

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

	2012/13	2013/14	2014/15
	£ 000's	£ 000's	£ 000's
Reduction in Resources	0	6,283	10,034
Increase in net expenditure	0	1,602	7,053
<b>Budget shortfall / (surplus)</b>	<b>0</b>	<b>7,885</b>	<b>17,087</b>

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

- Increases in council tax (1% increase raises approximately £500K) – although for 2012/13 the government will provide a grant equivalent to a 2.5% council tax rise if the Council does not increase council tax for that year
- Use of balances (see paragraph 40 on levels of balances) – these can only be used once and are more appropriate to apply towards one-off non-recurring costs
- Reductions in expenditure
- Increases in income

In previous years the Council has considered several alternative budget scenarios for future central government funding. Whilst there is considerable uncertainty about the levels of future government support, this remains a key area of volatility with regard to various budget scenarios.

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However there are other significant areas of concern, in particular the impact of welfare reform with the localisation of council tax support, NHS Reform and Education Finance Reform.

The Council has therefore modelled a range of possible scenarios, all based on current levels of service including a fixed set of contingencies, and all assuming council tax increases of 2.5% per annum. Clearly inflation and the level of future pay awards will be additional factors, but it is considered that the items mentioned in the previous two paragraphs are of greatest significance and a range of scenarios has been developed as shown below, on the basis that any other variations will affect the figures only at the margins.

<b>2013/14</b>	Best	Likely	Worst
	£ 000's	£ 000's	£ 000's
Basic MTFS assumptions	7,885	7,885	7,885
Impact of localisation of business rate (on central government funding)	(2,374)	867	3,425
<b>Sub-total</b>	<b>5,511</b>	<b>8,752</b>	<b>11,310</b>
Impact of welfare reform (housing and council tax benefits) – recurring	2,356	2,666	3,092
- non-recurring	442	545	664
<b>Sub-total</b>	<b>8,309</b>	<b>11,963</b>	<b>15,066</b>
Impact of NHS reform (impact of Clinical Commissioning Groups, transfer of Public Health funding and reductions in Re:Fresh / Social Care funding)	0	1,000	3,000
<b>Sub-total</b>	<b>8,309</b>	<b>12,963</b>	<b>18,066</b>
Education Finance Reform (further reduction in grant support for central functions if more schools become academies or free schools)	0	500	1,000
<b>Revised Totals</b>	<b>8,309</b>	<b>13,463</b>	<b>19,066</b>

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<b>2014/15</b>	Best	Likely	Worst
	£ 000's	£ 000's	£ 000's
Basic MTFS assumptions	17,087	17,087	17,087
Impact of localisation of business rate (on central government funding)	(9,390)	(428)	2,063
<b>Sub-total</b>	<b>7,697</b>	<b>16,659</b>	<b>19,150</b>
Impact of welfare reform (housing and council tax benefits) – recurring	2,902	3,215	3,631
- non-recurring	110	155	200
<b>Sub-total</b>	<b>10,709</b>	<b>20,029</b>	<b>22,981</b>
Impact of NHS reform (impact of Clinical Commissioning Groups, transfer of Public Health funding and reductions in Re:Fresh / Social Care funding)	0	1,000	3,000
<b>Sub-total</b>	<b>10,709</b>	<b>21,029</b>	<b>25,981</b>
Education Finance Reform (reduction in grant support for central functions if more schools become academies or free schools)	0	500	1,000
<b>Revised Totals</b>	<b>10,709</b>	<b>21,529</b>	<b>26,981</b>

All models indicate continued reductions in resources, and the Council will need to focus on identifying service priorities and on options for achieving further budget reductions over the subsequent two years.

### 39. 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 2013/14 and 2014/15 has not yet been disclosed, and in any case will be substantially modified through the local government resource review.	There is uncertainty with regard to future funding levels, although the CSR 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 2.9%, 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
Welfare reform changes fully funded by central government.	It is unlikely that all additional costs of the changes will be fully funded.

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Assumptions	Risks
Localised council tax benefit support scheme can be contained within existing budgets.	Government will reduce funding by 10% nationally, but councils are expected to keep the support for pensioners unchanged, resulting in increased pressures on the scheme for other groups. Risk of increased non-collection of council tax as a consequence of introducing a new scheme.
Number of Academies / Free Schools does not vary.	If a significant number of schools opt to become Academies or Free Schools, there will be reduced government funding for centrally retained budgets, and these may not be able to be reduced to the same extent as funding reductions are applied.
NHS Reform to have a neutral impact.	Whilst the transfer of public health to local councils ought to result in match funding transfers, this may not necessarily be the case. There are further risks as NHS funding previously used to support the Re:Fresh programme and Adult Social Care may not be available to the same extent.

### **RESERVES**

40. The council's unallocated general fund reserves are currently predicted to be £6.9M at 31<sup>st</sup> March 2012, together with £17.1M earmarked reserves excluding those allocated for schools and other partner bodies. Earmarked reserves have been set aside for specific purposes and are not generally available to support the revenue budget, although this year 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 2012/13. These in particular include:

- a reserve set up to meet non-recurring transformational set-up costs and shortfalls in savings plans (£4.639M)
- a reserve to fund costs of redundancies (£2.800M)
- a reserve set aside for budgets carried over from 2011/12 (£5.838M)
- contributions from developers towards works required as a condition of planning permissions (£0.679M)
- an amount to equalise the costs of the asylum seekers contract (£0.384M)
- an amount put aside to support the initial phases of building schools for the future (£0.781M)

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- an amount received from Network Rail to support future maintenance to the new Wainwright Bridge (£0.506M)
- an amount to support the corporate improvement and transformation programme (£0.523M)
- an amount set aside for highways winter maintenance in the event of a budget shortfall (£0.300M)
- an amount to support the review of services provided by the strategic partnership (£0.300M)
- a few smaller reserves amounting to £0.322M.

An assessment of the minimum level of unallocated reserves is required to be undertaken by the Director of Finance as part of the budget process. The minimum level of reserves recommended when setting the 2011/12 budget was £4.5M, but owing to the increasing risks due to economic conditions and uncertainty of future income streams, it is recommended that this level be increased to £5.0M in 2012/13. The level of reserves will be reviewed annually.

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

31 <sup>st</sup> March 2013	£6.930M
31 <sup>st</sup> March 2014	£6.930M
31 <sup>st</sup> March 2015	£6.930M

### **CAPITAL STRATEGY**

41. 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 £400M. 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 the programme are stretched.

Capital resources are currently significantly committed, and the opportunity for new schemes being introduced is limited. It is necessary to prioritise future capital bids, to assess and evaluate the effectiveness of the proposed capital project in achieving the Council's key corporate priorities.

The Council has operated an objective process for portfolios to bid for capital resources in previous years, and this underpins the current capital programme. However, as external funding has become limited, the Council has undertaken a detailed review of existing capital schemes, and has re-prioritised so that the new programme has been modified with only a few projects being added to the three year programme.

## Appendix F

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

The capital programme has plans for capital investment of £91.9 million over the next 3 years. The main areas of expenditure are as follows:

	£ million
Adult Social Care	3.3
Children's Services	47.9
Environmental Improvement and Sustainability	2.1
Housing	2.5
Leisure and Culture	2.1
Neighbourhoods and Customer Services	0.2
Regeneration	19.1
Resources	14.7
	91.9

In addition the Council has set aside a further £90.2M 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 and difficulties faced by individual schemes to the Senior Policy Teams. The reports ensure that the Council's objectives and proposed outcomes are achieved and that financial performance is not compromised. The monitoring reports include an assessment of how the project is proceeding with regards to budget and timescale and includes forecasts of any anticipated variations to target outcomes.

Whilst the Council's policy is to aim to maximise capital receipts through a review of existing property use, this is balanced against prevailing market conditions resulting in some assets being retained until the property market improves. A rigorous approach has been adopted to the identification and disposal of surplus assets that are no longer required to meet the corporate priorities of the Council. The Asset Management Group reviews on a continuing basis the property portfolio and identifies properties for sale.

## Appendix F

### APPENDIX 1

#### MEDIUM TERM FINANCIAL FORECAST 2012/13 TO 2014/15

##### Summary

	2012/13	2013/14	2014/15
<b>Resources</b>	£ 000's	£ 000's	£ 000's
Formula grant	77,318	76,877	71,842
Other non-ringfenced grants	18,729	18,729	18,729
Government grant in lieu of council tax increase 2012/13	1,252	0	0
Council tax	50,073	51,325	52,608
Less collection fund deficit for 2011/12	-842	0	0
Contribution from reserves	6,684		1
<b>Total resources</b>	<b>153,214</b>	<b>146,931</b>	<b>143,180</b>

	2012/13	2013/14	2014/15
<b>Net Expenditure</b>	£ 000's	£ 000's	£ 000's
Portfolio cash-limited budgets	137,522	131,815	132,595
Cost of capital investment	15,685	17,222	18,683
Central Contingencies	3,660	8,561	12,142
Net income from support service recharges	(3,653)	(3,153)	(3,153)
Contribution to reserves		371	
<b>Net expenditure</b>	<b>153,214</b>	<b>154,816</b>	<b>160,267</b>

	2012/13	2013/14	2014/15
	£ 000's	£ 000's	£ 000's
<b>BUDGET SHORTFALL / (SURPLUS)</b>	<b>0</b>	<b>7,885</b>	<b>17,087</b>

	2012/13	2013/14	2014/15
<b>Budget Plans</b>	£ 000's	£ 000's	£ 000's
Budget shortfall/(surplus) brought down	0	7,885	17,087
Further service reviews and efficiencies required subject to financial settlement	0	(7,885)	(17,087)
<b>Balanced Budget position</b>	<b>0</b>	<b>0</b>	<b>0</b>