Agenda Item 6.5

PRE-BUDGET MEDIUM TERM FINANCIAL STRATEGY 2008 to 2011

Introduction

1. This report is a key stage in the preparation of a Medium Term Financial Strategy (MTFS) for 2008 – 2011. Together with a consideration of the issues below, this will influence the formulation of a budget over the coming months, leading to a final MTFS incorporated within the Council's Performance Agreement, and approved at the Finance Council in March 2008.

2. The framework will cover:

    a. The Local Government Finance Settlement
    b. The preferred level of council tax increases
    c. The extent to which portfolio pressures will be supported, in principle, by cash limit increases (subject to resource availability)
    d. The extent to which savings will be required in order to meet council tax aspirations
    e. High priority service areas for investment
    f. Low priority service areas
    g. The extent to which the council can afford to increase unsupported borrowing to support its capital strategy (which will underpin prudential indicators)

Purpose

3. 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.

4. 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.

5. The MTFS forms a key link between financial and business planning, both reflecting and influencing the key plans of the Council, including the Performance Agreement, the Community Plan and other plans such as the Capital Strategy, Medium Term Property Strategy, Asset Management Process, and the developing and emerging People Strategy, ICT Strategy and Carbon Management Plan.

Financial Outlook

6. The financial outturn for 2006/07 and latest forecasts for 2007/08 indicate significant spending pressures across a number of service areas, but in particular across Adult Social Care. The budget strategy for 2007/08 was formulated with a

view to addressing this pressure, but to the extent that demand continues to exceed resources, this pressure will continue into future years.

7. 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. pay and reward
    e. concessionary travel
    f. waste

Priorities

8. 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.

9. The borough has five Area Agency Partnerships, as part of the Local Strategic Partnership (LSP), based upon the neighbourhood co-ordination areas. These partnerships bring together public, private and community and voluntary sector organisations to identify priorities and deliver activities to meet the Council's Local Area Agreement. Each partnership has to produce a plan for their neighbourhood area based on consultation with residents on local issues and through the LSP Theme Groups. The plans will change over time as priorities are addressed and new issues emerge. The Council will need to consider how it can build flexibility into the MTFS to respond to these changing priorities and to target resources to areas of greatest need.

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 high quality services
- 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 maintain 4* CPA status, reviewing all services' spending to demonstrate value for money in line with stated priorities and identified

need and achieving a good score for Use of Resources through continuous improvement

- identification of ongoing efficiency savings (cashable and non-cashable), to redirect into front line services
- continuing to seek to maximise appropriate local and external funding sources, whether through grants, additional income or partnering opportunities
- planning for and managing change, whether related to need, demand for services, technological advances, legislative, local aspirations or resource allocation
- good risk management and corporate governance within the authority and throughout our partnership arrangements
- recognising that in order to deliver the above, sufficient resources are made available to support services

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. This may also mean re-engineering the way in which services are provided or, indeed, who provides them.

12. There is also a dependency on the level of resources allocated by Central Government through the settlement in enabling the Council to meet its priorities whilst also meeting its objectives for Council Tax. The period of this MTFS coincides with the first three year settlement.

13. Members and officers are committed to successful partnership working, reflected in the existing partnerships with Capita and Hyndburn, closer working across Pennine Lancashire particularly on housing and economic development issues, with the Primary Care Trust (PCT), the strength of the Local Strategic Partnership (LSP) and the Local Public Service Board (LPSB), amongst others. 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.

14. The strategic partnership with Capita has recently undergone a 5 year fundamental review which will see changes being introduced over the next few months as the partnership evolves and prepares for the years ahead. A number of services have transferred back to the Council including Adults and Children's Social Care finance and administration, financial management, customer services, strategic HR, and the ICT service from the start of 2008/09.

National Considerations:

15. Local Government Finance settlement

In December 2005, the Government issued a 2 year financial settlement for Local Government, covering 2006/07 and 2007/08. There was also a significant change in the methodology used to allocate funding with the introduction of the 4 block model and the Dedicated Schools Grant (DSG). This has seen a shift away from notional spending on services to formulae based on relative need and relative resources i.e. the ability to raise Council Tax. Whilst Blackburn with

Darwen received an above average settlement, the authority has been making a significant contribution to the funding floor both in 2006/07 and, to a lesser extent, in 2007/08, although this was still c.£4.5M.

The Government has published its Comprehensive Spending Review (CSR) 2007 and pre-budget report. This indicates 1% growth above inflation, but with 3% efficiency savings required. Council tax increases are expected to be substantially less than 5%. All these are averages across the local government sector.

The grant distribution formula is also being reviewed with a view to a new settlement for the next three years 2008/09, 2009/10 and 2010/11. Until this review has been completed, towards the end of November, there will be considerable uncertainty around the amount of formula grant the Council might receive over the whole period of the MTFS.

16. Efficiency Programme

The Council has to deliver to a target of 2.5% efficiency gains per annum over the 3 year period 2005/08 to be reinvested in front line services, with at least half the identified efficiency gains being 'cashable'. The Council submits Annual Efficiency Statements, both Forward Look for the year ahead and Backward Look identifying achievements to date. Whilst these would indicate that the Council is well on the way to achieving the three year efficiency target, it is important that the focus internally continues to be on those areas where efficiencies can be achieved by the Council or with its partners.

The CSR 2007 intends that significant "cashable" savings will continue to be achieved, primarily from smarter procurement, better asset management and business process improvements.

17. Neighbourhood Renewal Fund (NRF) / Working Neighbourhoods Fund (WNF)

The authority has benefited from significant NRF funding which was extended to 2008. The CSR 2007 indicates that NRF will continue beyond March 2008, as the Working Neighbourhoods Fund, remaining targeted to areas of most deprivation. However, it is not yet certain that the borough would continue to benefit, or to what extent. Therefore, the authority needs to consider the future of services currently funded by NRF and the ongoing achievement of floor targets across LSP partners should the future WNF funding be reduced or redirected.

18. Public Service Agreements (PSA)

The authority successfully delivered its PSA1 and is now completing the assessment of PSA2 which will deliver additional Performance Reward Grant in 2007/08 and 2008/09, of up to £0.8M per annum in each of the two years, split 50/50 between revenue and capital. Again, it is important that the short term nature of this funding is a key consideration in its application.

19. Local Area Agreements (LAA)

The authority is in receipt of "single pot" LAA grant which has removed specific ring-fenced grants from a number of services to be distributed by way of the Local Strategic Partnership (LSP). Some 50 projects are being managed this way with a total grant approved of around £18M for 2007/08. Further grants, including NRF (WNF), are to be transferred into the LAA in 2008/09. The effective use of this funding will be critical going forward.

20. Adult Social Care and Health

Consideration needs to be given to the potential for cost transfer from the NHS. The Adult Social Care Department already works closely with partners in the Primary Care Trust (PCT) on issues such as rehabilitation and avoidance of bed blocking. Indeed closer working has seen the joint appointment of a new Chief Executive of the PCT, partly funded by the Council, sitting on the Council's Chief Executive's Strategy Group. Opportunities for wider efficiencies are also being explored.

21. Comprehensive Area Assessment (CAA) and Use of Resources (UoR)

Previously referred to as Comprehensive Performance Assessment (CPA), from 2009, there will be an enhanced focus on value for money (VFM) through the UoR block and a requirement for closer links between finance and performance which must be evidenced through improved business planning and greater understanding of cost drivers and comparators. BwD achieved an overall score of 3 for its UoR assessment in summer 2006 which included a 3 for VFM. Whilst the score was improved the overall assessment remained a 3 in 2006 and the 2007 assessment update is awaited.

22. Local Authority Business Growth Incentives (LABGI)

This scheme was introduced in 2005 allowing Councils to retain some business rate revenues resulting from growing the local tax base. The Council's Economic Development section within the Regeneration portfolio has a successful track record of supporting business growth and the authority realised significant revenues from business rate growth with sums of £1.0M and £1.8M having been received respectively in 2005/06 and 2006/07. There is potential for this payment to increase further for 2007/08.

The LABGI scheme was a 3 year scheme. The CSR 2007 has indicated that the scheme may continue but that there will be changes to the scheme. Significantly, the CSR suggests that no LABGI payments will be made in 2008/09, with a replacement scheme starting in 2009/10, but with income projections of only around 15% of the 2008/09 levels. Whilst this means there will be more money to distribute within the national rating pool, the Council is expected to experience a negative financial impact as a result.

23. Pensions

The Local Government Pension Scheme (LGPS) is administered by Lancashire County Council and actuarial revaluations are undertaken every 3 years. The last revaluation saw increases set for this three year period of 0.8% in 2005/06, 0.7% in 2006/07 and a further 0.7% in 2007/08 with resultant increased costs of around £0.5M annually. It is possible that further similar increases could be required over the next three year period. The actuary's report is expected before the end of the year.

Local Context

24. The Performance Agreement clearly demonstrates the links to the LSP priorities set out in the Community Plan and Local Area Agreement (LAA), to the Council's strategic objectives and how the Council's corporate planning process, including this MTFS, is driven by these overarching priorities to ensure the vision is achieved.

The Performance Agreement updated key priority areas are to be agreed at this Policy Council.

25. *Council Strategic Objectives*

The Council currently has 7 strategic objectives which reflect what we are trying to achieve:

- improve health and social well-being
- create sustainable communities and neighbourhoods
- improve the environment and housing
- cut crime and improve community safety
- promote economic regeneration
- deliver positive outcomes for all children and young people
- deliver the highest quality services

These objectives will be updated ay Policy Council and the medium term financial strategy needs to reflect the Council's priorities going forward.

26. *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, Medium Term Property Strategy (MTPS) and Asset Management Plan, ICT Strategy (draft being developed alongside the 5 year review of the strategic partnership), the People Strategy (currently in draft) and the newly developed Carbon Management Plan.

27. *Housing Market Restructuring (HMR)*

Five authorities across the East Lancashire sub-region currently benefit from significant HMR funding through the 'Elevate' pathfinder, one of 9 nationally.

Whilst this has also helped lever in further funding from NWDA and English Partnerships, consideration needs to be given to potential future grant clawback from any capital receipts generated from sites cleared and subsequently released for development. In addition, the sheer scale of the HMR programme means that expenditure and funding profiles can be difficult to achieve. The Council has seen significant early spend against the HMR profile in 2006/07 and there are ongoing short term revenue implications to be considered.

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

In its role as community leader, the Council needs to consider how the organisation should be positioned to ensure and sustain future delivery of quality services. Considering quality and scope of provision of service, together with ensuring accessibility, availability and value for money, options need to be worked up around the Council continuing as service provider against alternatives such as taking a wider commissioning role and becoming more of an 'enabler'.

Cost Pressures

29. *2007/08 Budget Monitoring*

Current budget monitoring indicates ongoing cost pressures across demand led services within Adult Social Care which need to be considered in advance of the 2008/09 budget. To the extent that these pressures, arise from increasing demand for services, they will be continuing.

30. *Regeneration of the Town Centres*

A priority for the authority in the medium to longer term, there is the planned development of a new Blackburn market and the redevelopment of the shopping centre, key town centre sites for development. There are also development plans for the Cathedral quarter and the area around Blackburn College.

31. *Pay and Reward*

The development of Pay and Reward policies to encompass Job Evaluation and full implementation of Single Status by April 2008 is a challenging timetable and could have significant financial implications. The Local Government Employers estimate costs could be in the region of between 4% and 6% of the paybill. This could mean around £4M or more for the Council.

32. *Waste*

To encourage recycling and reduce landfill, the government has significantly increased the level of landfill tax and will continue to do so. The tax will increase by 33% per annum per tonne, a current annual cost increase of over £400K.
In addition, each waste disposal authority is set a landfill allowance, above which threshold financial penalties will be incurred for excess waste landfilled. In conjunction with this there is a Landfill Allowance Trading Scheme (LATS) which allows authorities to buy and sell landfill permits.

The authority needs to ensure that landfill tonnages stay within the permitted allowances otherwise LATS charges of up to £5 million could be incurred.

33. *Concessionary Fares*
A new national concessionary fare scheme is due to be introduced from April 2008. This will extend the current scheme of free off-peak bus travel for concession-holders within borough boundaries to unlimited off-peak bus travel. Furthermore, the national scheme is proposing a significant change in the incidence of where costs will fall, as liability moves from place of residency to place where journeys commence. Thus for example if a resident of Blackburn takes a bus to Preston, then to Blackpool, returning directly to Blackburn, Blackburn with Darwen will pick up the fare subsidy for the outward journey to Preston, then Preston will pick up the cost to Blackpool and Blackpool will pick up the cost back to Blackburn. Similarly Blackburn will pick up the costs for returning visitors.

It is impossible to forecast what the financial impact of these changes will therefore mean for the Council. The Government has stated that the additional costs will be fully covered, and following substantial lobbying by local authorities, a specific grant will be paid for at least the next three years. However, the grant will be formula-driven and as such may not actually fully cover all the additional costs. Nevertheless, the assumption within this plan is that additional costs will be fully covered by grant.

34. *Car Parking*

Approval has been given for a new multi-storey car park in Blackburn. There may be some temporary loss of income from other car parks in the town as key sites are released for development and this could also be affected by the shopping centre redevelopment plans.

35. *ICT*

The ICT Strategy currently being developed following completion of the 5 year review may result in potential investment requirements. 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.

36. *Capital commitments and future investment*

The 3 year Capital Programme 2007-10 approved as part of the 2007/08 budget process includes a number of longer term schemes with funding commitments beyond the current year. These will obviously be first call on future capital resources and may impact on the availability of funding for new schemes. There are also significant revenue implications to be built in to forecasts. In addition, the accelerated spending in relation to the HMR programme has required significant short term borrowing – the use of future housing grant to repay this borrowing is likely also to restrict the extent to which the Council can commit its own resources to supporting housing investment.

37. *Investment in Physical Assets*

To sustain our operational and community assets investment will be required. Reviews will establish which buildings are required for longer term service provision and staff office accommodation, with consideration being given to the emerging neighbourhoods agenda and the proposals for more flexible working. There is also a need to review energy usage and more energy efficient options with a view to encouraging lower consumption both in the interests of the environment and delivering cost efficiencies.

Opportunities

38. *External Funding*

In late 2006, the Council was awarded significant external funding under both the Building Schools for the Future (BSF) initiative, where the Council is in wave 4, and the Local Economic Growth Initiative (LEGI) which will influence future investment across the Pennine Lancashire sub-region.

The authority has also retained Assisted Area status, along with adjacent wards in Hyndburn, for the period 2007-2013 which will be a key factor in attracting UK and EU funding going forward. From 2007 there is a new EU structural funding round which will be more closely linked to UK national economic regeneration spend delivered via Regional Development Agencies (RDAs) for which effective sub-regional economic planning will be increasingly important.

Shared services across Pennine Lancashire, facilitated by the proposed new Pennine Lancashire City Development Company (CDC), may provide opportunities not only to generate efficiencies but to maximise the use of external funding across the sub-region. The recent Sub-National Review of Economic Development proposes the devolution of funding from the Regional Development Agency to the CDC, and it is envisaged that this will provide additional resources for economic regeneration from 2009-2010 onwards.

39. *Business Transformation*

The Council's investment in bdirect, and the changes being made to the senior management structure will help to ensure that opportunities for efficiencies through changing business processes are delivered.

40. *Procurement*

Changes in the way the Council procures goods and services are now showing significant benefits, and savings approaching £1M per annum have currently been identified. These opportunities are set to develop further as the procurement team is strengthened. The Council has agreed to join the East Lancashire e Partnership (ELeP) to improve procurement savings opportunities and capacity.

41. *Service Provision Reviews*

A review of community centres has recently been undertaken by external consultants, transport provision is currently under review, and, for example, the Darwen Leisure Centre development could, in time, facilitate a review of other leisure facilities across the borough.

42. *Future Accommodation Requirements*

This needs to link into the Council's family friendly policies and strategies for more flexible working, including home working and mobile working in neighbourhoods, in order to appreciate current and potential future requirements for Town Centre accommodation, predominantly for office based staff. Links should also be made to future car parking requirements.

43. *Council Tax*

Comparisons with other unitary authorities show that average Council Tax payable per dwelling is fairly low being in the 3rd quartile even though our spending and settlement is high.

44. *Partnerships*

The joint appointment of Chief Executive of the Primary Care trust (PCT) with a remit which includes reviewing links between Health and Social Care will provide opportunities for both the Council and the PCT. For example, proposals are being worked up for the development of an integrated commissioning system across the PCT and the Council's Adult Social Care and Children's Services departments. The current commissioning functions could be formally joined up to commission more effective and efficient integrated services for health and wellbeing. The partnership board across the PCT and Council functions as a business partnership and as such it is proposed that it's remit, governance arrangements and membership are reviewed to enable it to function as the hub of decision making and accountability for the future commissioning arrangements.

2007/08 budget monitoring position

45. The Council set the budget with a view to contributing £1M to bring balances up to a minimum level of £4M. The budget monitoring report to October Executive Board forecast balances to be around £4.6M at 31 March 2008, subject to all portfolios maintaining spending within their cash limits and achieving their target savings of £14.3M. Portfolios were on target to deliver 86.1% of these savings, with £0.3M behind target and £1.7M savings not being delivered. Portfolios are required to prepare action plans to ensure they balance their budgets, but within Adult Social Care in particular increasing demands may make this difficult to achieve, and balances may be reduced as a consequence.

Three Year Financial Forecast

46. 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.

	2008/09 £ 000's	2009/10 £ 000's	2010/11 £ 000's
Estimated Increase in Resources / Savings	9,929	12,773	15,984
Assumed Cost pressures at existing service levels to be funded corporately	10,865	14,885	17,632
Budget shortfall / (gain)	**936**	**2,112**	**1,648**

In addition to this, however, portfolios are also identifying service pressures some of which are potentially significant.

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

- Additional increases in council tax (1% increase raises approximately £470K)
- Use of balances (see paragraph 49 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

47. Assumptions and Risks

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

Assumptions	Risks
Resources	
Formula grant increases of 2.5% per annum	The council has tended to receive favourable increases in excess of this sum in the past, and whilst the Comprehensive Spending Review has indicated there will be a real terms increase of around 1%, it is also introducing cashable efficiency savings of 3% per annum for the next three years. However, if the disbenefit the council experiences as a result of "floor damping" is reduced, the council may get a bigger share of the national total. A 1% variation in grant amounts to around £640K

LABGI grant will be suspended for 2008/09, with a new scheme commencing in 2009/10, but at a much reduced level.	It is assumed that the suspension of the scheme will result in more funding being available within the national rating pool. However, the Council is likely to only benefit by half the amount lost from LABGI. If the Government has used the additional rating pool to reduce the funding available within RSG, then the estimate of formula grant will be overstated.
WNF grant support to main programme of £1M is assumed to continue on a similar basis as NRF.	Whilst the Government has indicated that NRF will continue beyond March 2008, as WNF, remaining targeted to areas of most deprivation, it is not yet certain that the borough would continue to benefit, or to what extent.
Performance reward grant of £800k in 2008/09 will not apply in subsequent years	
Council tax increases each year broadly in line with inflation	
Spending Pressures	
Pay inflation of 2.5% per annum	Pay award for 2007 now agreed at 2.475%.
Pensions three yearly actuarial review – assumed increases of approximately £500k per annum accumulating over the three year period	It is possible, that the review may not require this level of increase.
Price inflation generally at 2.5%, but taking account of known contract price reductions for fuel and insurances in 2007/08. 33% increase in landfill tax for 2008/09	
Pay and reward £4M	This figure is a very broad estimate based on the limited experience of some other councils. However, the pay line has not yet been determined, and the impact of the scheme locally may be significantly different
Borrowing costs in respect of current capital programme commitments. Forecast assumes that capital receipts in respect of the sale of Darwen Moorlands school site and the Blackburn market site, are used to repay advance borrowing and *not* to finance new expenditure. It has also been assumed that housing capital grant over each of the next three years is committed to the repayment of the advance borrowing in support of HMR, and will *not* therefore be available for new capital investment.	Capital receipts may not be as great as forecast. Capital costs may increase Capital grants assumed in respect of Freckleton Street link road may not be approved. Darwen Moorlands school has been earmarked as a location to decant pupils from other schools as Building Schools for the Future takes place. This may significantly delay any capital receipt. The capital costs in connection with the market redevelopment have not yet been

	fully established, and whilst it has been assumed that any increased costs will be covered by the capital receipt, the level of receipt will be dependant upon planning decisions regarding the future of the old site, and any capital receipt could fall significantly short of the amount anticipated.
It is assumed that the increased cost of the new national concessionary fare scheme will be fully financed by a specific grant	There is a risk that the specific grant, being based on a formula, will not be sufficient to cover the Council's actual additional costs.

Further budget pressures and opportunities

48. In addition to the budget pressures outlined above, portfolios are also working up budget pressures not currently being met corporately. These have typically been in the region of £4M - £5M in previous years.

RESERVES

49. The council's unallocated general fund reserves are currently predicted to be £4.6M at 31st March 2008, together with £3.3M earmarked reserves excluding schools. Earmarked reserves have been set aside for specific purposes and are not generally available to support the revenue budget. They mainly relate to contributions from developers towards works required as a condition of planning permissions (£900k), an amount in respect of accrued PSA1 performance reward grant (£1,185k), highway claims in relation to previous years (£400k) and an amount to equalise the costs of the asylum seekers contract (£400k).

An assessment of the minimum level of unallocated reserves is required to be undertaken by the Strategic Director Resources as part of the budget process. The minimum level of reserves recommended when setting the 2007/08 budget was £4M, and it is currently assumed that reserves should remain at this level.

Should no further action be taken, the current budget forecasts show unallocated reserves as follows:

31st March 2009	£ 3.7M
31st March 2010	£ 1.6M
31st March 2011	£ 0.0M

CAPITAL STRATEGY

50. Investing in infrastructure, public spaces and buildings can uplift the local area and improve services. The capital programme has approved plans for capital investment of £31M in 2008/09 and £25M in 2009/10. This includes significant support towards housing investment, a new leisure centre in Darwen, town centre improvements in both Blackburn and Darwen including a new multi-storey car park and a new market hall in Blackburn town centre, improved transport infrastructure including the replacement of Freckleton Street bridge and associated link roads, and the Darwen Academy.

The Council has been successful in bidding for entry into wave 4 of Building Schools for the Future, and if the project successfully proceeds, then by 2014, when children who start school this September move up to high school, there will be 5 new or re-modelled state of the art schools, increasing to 8 by 2016.

The council has a portfolio of operational and commercial assets valued at over £400M. Maintaining these assets so they perform effectively and protect their value for future generations is a key priority for the council. The council is further developing an asset management plan together with an associated corporate repair and maintenance programme to underpin this.

However, capital resources are currently significantly committed, and the opportunity for new schemes being introduced is limited. It is important therefore that the capital programme takes into account the council's service priorities as set out elsewhere in the Performance Agreement. The council is developing an improved process for portfolios to bid for capital resources. This is by way of a system of "gateways" – the first gateway is considering high level bids which are being prioritised by linking to the council's asset management and service plans. Those passing through the first gateway will then be developed in greater detail, thus eliminating the need to undertake significant abortive preparation work. The final selection of schemes will, however, be dependant upon the level of capital resources available. The submission of projects which can generate substantial savings sufficient to finance borrowing costs and contribute towards corporate savings targets are likely to be favoured.

The Medium Term Financial Strategy depends upon the use of the eventual expected capital receipts arising from the sale of the Markets site and Darwen Moorland School to be used to repay the short term borrowing for the land assembly. However, these receipts may be delayed and they also carry a risk of falling significantly short of the amounts required. In addition, housing capital grant expected to be received over the three year period will also be substantially committed to repaying advance borrowing used to support the HMR programme.

The main priority areas for investment at a corporate and neighbourhood level, will be in respect of housing, regeneration, asset management and invest to save projects.

APPENDIX 1

PRE-BUDGET MEDIUM TERM FINANCIAL FORECAST 2008/09 TO 2010/11

Summary (cumulative over the period)

	2008/09	2009/10	2010/11
Increase in Resources / Savings	£ 000's	£ 000's	£ 000's
Formula Grant plus rating pool increase due to LABGI grant fall-out	2,607	4,105	5,644
Collection fund adjustment	115	115	115
Council tax increase 2008/09	1,172	1,172	1,172
Council tax increase 2009/10		1,200	1,200
Council tax increase 20010/11			1,231
Non-recurring expenditure 2007/08	4,557	4,557	4,557
Borrowing costs reduced due to capital slippage	1,046	1,046	1,046
Net savings estimated to accrue from transport review	432	578	1,019
Net increase in resources	**9,929**	**12,773**	**15,984**

	2008/09	2009/10	2010/11
Cost Pressures	£ 000's	£ 000's	£ 000's
Fall-out of Performance Reward grant	100	900	900
Fall-out of LABGI grant	1,300	1,000	700
Pay, pensions and price inflation	3,446	6,491	9,623
Pay and reward	4,000	4,000	4,000
Borrowing costs consequent to current capital programme commitments	1,207	1,566	1,481
Borrowing costs in respect of capitalised equal pay compensation	401	458	458
Weekly refuse collection rounds	411	470	470
Net increase in pressures	**10,865**	**14,885**	**17,632**

	2008/09	2009/10	2010/11
	£ 000's	£ 000's	£ 000's
BUDGET SHORTFALL / (BENEFIT)	**936**	**2,112**	**1,648**