



REPORT OF: Director of Finance
TO: POLICY COUNCIL
ON: 3rd December 2009

SUBJECT: PRE-BUDGET MEDIUM TERM FINANCIAL OUTLOOK

1. PURPOSE OF THE REPORT

To set the financial framework for the Council for the medium term.

2. OPTIONS

Options will be considered as part of the budget process.

3. RECOMMENDATIONS

- a) Portfolios to take steps to ensure they continue to balance their budgets within their provisional cash limits, taking into account the Council's overall priorities.
- b) Options are formulated for consideration and appraisal which reflect the council's priorities and ensure a balanced budget is set at Finance Council, whilst ensuring a minimum level of balances is maintained.
- c) The current policy for maximum council tax increases each year to be below the level of inflation be reconsidered in the light of the impact of the economic situation and any consequent changes to funding and grant settlements to the Council.

4. BACKGROUND

The Council's Medium Term Financial Strategy (MTFS) 2009 – 2012 was formally approved at Finance Council on 2nd March 2009. This is a rolling three year strategy and therefore the report contained within the attached Appendix is the first stage in the preparation of an updated MTFS for 2010 – 2013.

5. RATIONALE

This will influence the formulation of a rolled forward 3 year 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 2010.

6. POLICY IMPLICATIONS

The final Medium Term Financial Strategy will be incorporated within the Performance

Agreement.

7. FINANCIAL IMPLICATIONS

The details are contained within the attached Appendix.

8. LEGAL IMPLICATIONS

The Council is required to set a budget and declare a Council Tax by 11th March 2010

9. RESOURCE IMPLICATIONS

The MTFS forms a key link between financial and business planning, reflecting and influencing key plans of the Council, and accordingly will have an impact across all the Council's resources.

11. CONSULTATIONS

Consultations will take place during the course of the budget process.

Elizabeth Hall
Director of Finance

Contact Officer:	Paul Cutner, Head of Corporate Finance
Date:	24 th November 2009
Background Papers:	Performance Agreement 2009/10

PRE-BUDGET MEDIUM TERM FINANCIAL OUTLOOK 2010 to 2013

Introduction

1. The Council's Medium Term Financial Strategy (MTFS) 2009 – 2012 was formally approved at Finance Council on 2nd March 2009. This is a rolling three year strategy and therefore this report is the first stage in the preparation of an updated MTFS for 2010 – 2013. Together with a consideration of the issues below, this will influence the formulation of a rolled forward 3 year 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 2010.
2. The framework will cover:
 - a. A review of the medium term financial strategy for 2009 - 2012
 - b. The Local Government Finance Settlement
 - c. The preferred level of council tax increases
 - d. The extent to which portfolio pressures will be supported, in principle, by cash limit increases (subject to resource availability)
 - e. The extent to which savings will be required in order to meet council tax aspirations
 - f. High priority service areas for investment and cost drivers
 - g. Low priority service areas
 - h. The extent to which the council can afford to increase unsupported borrowing to support its capital strategy (which will underpin prudential indicators)
 - i. The recession and economic recovery

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 Sustainable Community Strategy, the Local Area Agreement and other plans such as the Medium Term Property Strategy, Asset Management Process, ICT Strategy, Carbon Management Plan and the emerging People Strategy.

Principles

6. 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 excellent inspection ratings as we move into the wider (organisational) Comprehensive Area Assessment (CAA); reviewing all services' spending to demonstrate value for money in line with stated priorities and identified need; achieving a good score for Use of Resources through continuous improvement
 - identification of ongoing efficiency savings 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
 - pursuing innovative partnership working arrangements where this will deliver improved services and/or efficiencies
7. The continued 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 mean re-engineering the way in which services are provided or, indeed, who provides them.
8. 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.
9. 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 (including the joint building control service with Burnley), with NHS Blackburn

with Darwen, the strength of the Local Strategic Partnership (LSP) and the Local Public Service Board (LPSB). 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:

Local Government Finance settlement

10. Two years ago the Government published provisional formula grant figures for 2010/11, which, at the time of writing, remains to be confirmed. Settlement figures will not be available for 2011/12 and 2012/13 until the next comprehensive spending review (CSR10) due next summer. Given the current state of public sector finances, it is likely that there will be substantial reductions in the amount of funding available to support local government as a whole, although it is expected that Blackburn with Darwen's settlement may continue to be higher than the average, assuming the council's contribution to "damping" continues to reduce.

Efficiency Programme

11. The CSR 2007 intends that significant "cashable" savings will continue to be achieved, primarily from smarter procurement, better asset management and business process improvements. The Council's target for 2010/11 is likely to be £7.63M.

Area Based Grant

12. Area Based Grant (ABG) is expected to continue beyond 2010/11, but could see substantial reductions. This is a general grant, not ringfenced to services in any way. The grant is linked to LAA priorities and outcomes determined in agreement with the Local Strategic Partnership (LSP). The council is currently ringfencing those elements which have been committed through the LEGI (Local Enterprise Growth Initiative) programme, amounting to £6.060M in 2010/11. Supporting People grant is also expected to transfer into ABG from 2010/11, based on a provisional allocation of £5.367M. The means of distributing this grant nationally from 2011/12 have not yet been decided. This therefore poses a risk to the council as the grant may be significantly redistributed nationally, as well as being reduced in real terms.

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

13. CAA looks at how well local services are working together to improve the quality of life for local people. It will make straightforward independent information available to people about their local services, helping them make informed choices and influence decisions. UoR is an Audit Commission assessment of how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people. The assessment has been revised to meet the needs of CAA; it assesses use of resources in a broader way than previously, embracing the use of natural,

physical and human resources. It also places new emphasis on commissioning services for local people to achieve value for money. The Council achieved an overall score of 3 for its UoR assessment in summer 2009 which means the Council is performing well.

Local Authority Business Growth Incentives (LABGI)

14. This scheme was introduced in 2005 allowing Councils to retain some business rate revenues resulting from growing the local tax base. The authority realised significant revenues from business rate growth amounting to £5M over the three year period covered. The scheme has, however, been reviewed, resulting in a very significant reduction in the amount of grant received (£66K for 2009/10). The amount available for distribution nationally is also expected to fall as a consequence of the recession.

Pensions

15. The Local Government Pension Scheme (LGPS) is administered by Lancashire County Council and actuarial revaluations are undertaken every 3 years. The last revaluation did not require the council to make any increases for the period 2008/09 to 2010/11. However, as a consequence of the credit crunch, the actuarial value of the pension fund is likely to have reduced, and increases in pension contributions may have to be significantly increased in the future, from 2011/12 onwards.

Current Economic Outlook

16. The current economic forecast is one of a slow recovery from the recession. This may see continued unemployment and consequential pressure on council services in relation to advice and support services, housing benefits and income recovery for example. Private sector investors may continue to find difficulty in raising the necessary finance to support investment. The council will wish to ensure it can continue to support businesses and investment in the Borough's regeneration. The potential long term impact of the recession on public sector finances and the effect on the council and its budget will be a key issue for consideration at Finance Council.

2009/10 budget monitoring position

17. The Council set the 2009/10 budget with a view to utilising around £0.7M of balances, whilst ensuring that balances do not fall below a minimum of £4M over each of the next three years. The budget monitoring report to October Executive Board forecast balances to be around £4.8M at 31 March 2010. A number of pressures are being identified in some portfolios, with Children's Services identifying issues which will become more significant for 2010/11. Action plans are being considered by portfolio Members to address these in 2009/10, but there may be some difficult decisions required for 2010/11. Whilst the Council had to allow for significant price increases for gas and electricity last year, prices are now falling substantially, with the latest electricity contracts showing a 40%

price reduction. Pay and price inflation has also proved to be lower than originally estimated.

Review of the financial forecast for 2010/11 and 2011/12.

18. The forecast for the next two years allowed significant investment in health and neighbourhoods, but continuing to drive out efficiencies. Whilst a further contribution from balances of around £0.2M was planned for 2010/11, the position by 2011/12 was expected to result in a broadly balanced position.
19. At this stage it is difficult to provide a useful update of the financial position. The Chancellor is not due to present his pre-budget report until 9th December, and only then will provisional formula grant figures be issued. 2010/11 is the last year of the three year settlement period, and whilst it might be expected that the figures should remain unchanged, given the position of public sector finances, and the fact that inflation has fallen significantly, there is the possibility that there may be some changes to the original settlement figure. Furthermore, the Queen's Speech announced the Government's intention of introducing a Bill that would see the public sector deficit being halved over the next four years. It is therefore likely that the formula grant settlement will be reduced over the next few years.
20. There should also be an expectation that other service specific government grants may be reduced, as well as the relatively new area based grant.
21. The emerging budget pressures, and service priority areas, are currently anticipated to include the safeguarding of children, the regeneration of town centres and waste disposal.
22. The Council will seek to ensure that council tax increases remain low in view of the economic situation and if possible keep increases lower than the rate of inflation.

CAPITAL STRATEGY

23. Investing in infrastructure, public spaces and buildings can uplift the local area and improve services. The current capital programme has approved plans for capital investment of £48M in 2010/11 and £45M in 2011/12.
24. 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 continuing to refine its an asset management plan together with an associated corporate repair and maintenance programme to underpin this.
25. However, capital resources are currently significantly committed, particularly as some £13M of capital receipts have been re-profiled over the next 5 years, and will be required to repay temporary borrowing that has been taken out to cover the current shortfall. All new capital expenditure, for the foreseeable future, will have to be funded from grants or from borrowing, with the latter resulting in an

ongoing financial commitment to the Council for many years. The opportunity for introducing new schemes is therefore very limited and it is thus important that the capital programme takes into account the council's service priorities as set out elsewhere in the Performance Agreement.

26. The Medium Term Financial Strategy depends upon the use of the eventual expected capital receipts arising from the sale of Darwen Moorland School to be used to repay the short term borrowing for the land assembly. Further receipts are earmarked to support the Building Schools for the Future programme. Any delay or shortfall in these receipts will pose a financial risk as the shortfall may require additional borrowing.
27. 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.

RECOMMENDATIONS

- a) Portfolios to take steps to ensure they continue to balance their budgets within their provisional cash limits, taking into account the Council's overall priorities.
- b) Options are formulated for consideration and appraisal which reflect the council's priorities and ensure a balanced budget is set at Finance Council, whilst ensuring a minimum level of balances is maintained.
- c) The current policy for maximum council tax increases each year to be below the level of inflation be reconsidered in the light of the impact of the economic situation and any consequent changes to funding and grant settlements to the Council.