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## PRE-BUDGET MEDIUM TERM FINANCIAL OUTLOOK

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### 1. PURPOSE OF THE REPORT

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

### 2. OPTIONS

Options will be considered throughout the budget setting process.

### 3. RECOMMENDATIONS

- a) That portfolios take steps to ensure they continue to balance their budgets within their provisional cash limits, taking into account the Council's overall priorities.
- b) Note the delivery of savings reported through Executive Board to deal with the in-year reductions in grant funding in 2010/11, including Area Based Grants.
- c) Endorse the development of a Single Integrated Management Team and the Council Chief Officer restructuring as approved by the Chief Executive and Chief Officers Employment Committees, the Executive Board and the Care Trust Plus Board, which will deliver significant recurring savings for both organisations.
- d) That options are formulated for consideration and appraisal which reflect the council's priorities and ensure a balanced budget is set at Finance Council in March, whilst ensuring a minimum level of balances is maintained.
- e) To consider a council tax policy that seeks to minimise increases each year 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) 2010–2013 was formally approved at Finance Council on 1<sup>st</sup> March 2010. Whilst this was a rolling three year strategy the report contained within the attached Appendix is the first stage in the preparation of an updated MTFS to cover the four year period 2011–2015.

#### **5. RATIONALE**

This will influence the formulation of a rolled forward 4 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 2011.

#### **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 11<sup>th</sup> March 2011

#### **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.

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Date:	19 <sup>th</sup> November 2010
Background Papers:	Performance Agreement 2010/11

### **PRE-BUDGET MEDIUM TERM FINANCIAL OUTLOOK 2011 to 2015**

#### **Introduction**

1. The Council's Medium Term Financial Strategy (MTFS) 2010–2013 was formally approved at Finance Council on 1<sup>st</sup> March 2010. Whilst this was a rolling three year strategy this report is the first stage in the preparation of an updated MTFS to cover the four year period 2011–2015. Together with a consideration of the issues below, this will influence the formulation of a rolled forward 4 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 2011.
2. The framework will cover:
  - a. A review of the medium term financial strategy for 2010 - 2013
  - b. The comprehensive spending review and 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 to ensure the Council sets a balanced budget with substantial reductions in external funding
  - f. Unavoidable pressures and cost drivers
  - g. Areas for disinvestment and service reductions
  - h. High priority areas which may require investment
  - i. The extent to which the council can afford to increase unsupported borrowing to support its capital strategy (which will underpin prudential indicators)
  - j. 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 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 quality services
- valuing employees
- managing future council tax levels and increases ensuring that a balanced budget is set in the light of a reduction in grant funding from central government
- 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
- reviewing all services' spending to demonstrate value for money in line with stated priorities and identified need
- 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. The Council is currently expecting a substantial reduction in resources following the comprehensive spending review. This follows significant in-year reductions in grant funding which have had to be met during 2010.

9. Members and officers are committed to successful partnership working, reflected in existing partnerships with Capita, closer working across Pennine Lancashire particularly on housing and economic development issues (including the joint

building control service with Burnley), with Blackburn with Darwen NHS Teaching Care Trust Plus, including the new Single Integrated Management Team, 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. The Government has been consulting on proposed revisions to the distribution of formula grant. The total amount of funding available in formula grant will also be significantly changed following the comprehensive spending review. The Government intends to issue details of the provisional local government settlement in December, which is likely to be for a two year period, with indicative figures for years 3 and 4 of the four year MTFS period. It is however clear from the CSR that significant reductions in overall funding can be expected.

#### *Efficiency Programme*

11. The CSR 2010 intends that significant “cashable” savings will continue to be achieved, primarily from smarter procurement, better asset management and business process improvements. The CSR aims to ensure that scarce resources are targeted towards front line services with greater efficiencies being achieved in support and administrative services.

#### *Area Based Grant*

12. This grant has been discontinued for 2011/12. Some elements of the grant will be transferring into formula grant, with other areas being discontinued (such as worklessness and LEGI). This follows reductions to this grant during 2010/11.

#### *Pensions*

13. The Local Government Pension Scheme (LGPS) is administered by Lancashire County Council and actuarial revaluations are undertaken every 3 years. The next revaluation is currently underway and is likely to result in an increase in pension contributions from 2011/12 onwards.

### **Current Economic Outlook**

14. 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.

### **2010/11 budget monitoring position**

15. The Council set the 2010/11 budget with a view to ensuring that balances are maintained at around £5M, well above the minimum of £4M, over each of the next three years. The budget monitoring report to November Executive Board forecast balances to be around £5.3M at 31 March 2011. A number of pressures are being identified in some portfolios, with action plans being considered by portfolio Members to ensure these are addressed.
16. The Council has put in place plans to manage in-year grant funding cuts during 2010/11 and has commenced a number of service and cross-cutting reviews to deliver longer term savings including the development of a Single Integrated Management Team with the Care Trust Plus which will deliver full year savings in excess of £2M across both organisations.

### **Review of the financial forecast for 2011/12 and 2012/13.**

17. The forecast for the next two years recognised that the Council was going to have to make substantial savings whilst still allowing for some investment in key priority areas. Work has therefore been underway all year to review services in anticipation of significantly reduced government grants.
18. The Council's financial position must now be considered in the light of the comprehensive spending review. This set out real term reductions of 28% in local authority budgets over the next four years. The fall in grant is more than 7% a year in real terms and significantly front loaded. Government figures show a fall of 10.7% in the first year. This includes specific grants and some elements of Area Based Grant as well as the funding for Police and Fire Services. If these are excluded, the average reductions for local authorities in the first year are significantly higher, with estimates ranging from 12% to 17%. At this stage it is not possible to accurately estimate the impact on Blackburn with Darwen Council. However the impact is likely to be greater than average as the cuts are expected to have a greater impact on deprived areas (following the reduction in Area Based Grant in the summer). Once reductions in both Area Based Grant and Formula Grant are taken into account, revised estimates suggest that savings of £29m may be required in 2010/11 rising to £48m in 2014/15. The savings required will be more accurately assessed when the local government financial settlement is published in early December.
19. The government in the comprehensive spending review set aside £700m to allow councils to set a zero council tax increase for 2010/11 and for councils taking up this offer, the funding will be built into grants for the next four years. Policy Council may wish to consider whether it wishes to see a zero council tax freeze for 2011/12.
20. The Council is now planning for substantial reductions in funding and is preparing options to enable it to achieve a balanced budget in 2011/12 and future years. In

so doing, the Council must recognise its legal and contractual obligations to its partners, suppliers and employees. In addition the Council must also comply with European Regulations governing the procurement of goods and services. In practice, this will affect the Council's ability to achieve any savings it has targeted in full in 2011/12.

21. The Council has already reviewed its revenue budgets and capital programme and where appropriate revised its plans. Further and continuing reviews will be undertaken in the coming months and years as the financial challenges become clearer. The Council has also given notice to the relevant partners, suppliers and staff where the government has announced that grant funding has been withdrawn. The Council may need to take further action once the local government financial settlement is known. Executive Board In July agreed that a comprehensive review of fees and charges be undertaken. A further report covering fees and charges will be submitted to Executive Board shortly.

### **CAPITAL STRATEGY**

22. Investing in infrastructure, public spaces and buildings can uplift the local area and improve services. The current capital programme has been reviewed during this year in the light of changing priorities with plans for capital investment of £50M in 2011/12, £48M in 2012/13, £48M in 2013/14 and £50M in 2014/15 and future years.
23. The council has a portfolio of operational and commercial assets valued at around £440M. 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.
24. 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.
25. 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.
26. The main priority areas for investment at a corporate and neighbourhood level, will be in respect of regeneration, asset management and invest to save projects.

## **RECOMMENDATIONS**

- a) That portfolios take steps to ensure they continue to balance their budgets within their provisional cash limits, taking into account the Council's overall priorities.
- b) Note the delivery of savings reported through Executive Board to deal with the in-year reductions in grant funding in 2010/11, including Area Based Grants.
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