



REPORT OF:	Director of Finance
TO:	POLICY COUNCIL
ON:	1 December 2011

OUR PLANS FOR 2012-2013 - PRE-BUDGET MEDIUM TERM FINANCIAL OUTLOOK

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 the Council endorses the 2 year budget strategy agreed in March 2011, of which 2012/13 was the second year.
- b) 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.
- c) That options are formulated for consideration and appraisal which reflect the council's priorities and ensure a balanced budget for the financial year 2012/13 is set at Finance Council in March 2012, whilst ensuring a minimum level of balances is maintained.
- d) 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, taking into account particularly the implications arising from the further one year only Council tax free freeze grant offered for 2012/13 to enable the council to set a nil increase for that year only.

4. BACKGROUND

The Council's Medium Term Financial Strategy (MTFS) 2011–2015 was formally approved at Finance Council on 7th March 2011. Whilst this was a four year strategy the report contained within the attached Appendix is the first stage in the preparation of an updated MTFS to cover the three year period 2012–2015.

5. RATIONALE

This will influence the formulation of a rolled forward 3 year budget over the coming months, leading to a final MTFS to be incorporated within the Council's Corporate Plan and approved at the Finance Council in March 2012.

6. POLICY IMPLICATIONS

The final Medium Term Financial Strategy will be incorporated within the Corporate Plan.

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 2012

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.

10. EQUALITY

This will be assessed when the 2012/13 budget is formulated.

11. CONSULTATIONS

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

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Date: 16th November 2011
Background Papers: Corporate Plan 2011/12

PRE-BUDGET MEDIUM TERM FINANCIAL OUTLOOK 2012 to 2015

Introduction

1. The Council's Medium Term Financial Strategy (MTFS) 2011–2015 was formally approved at Finance Council on 7th March 2011. Whilst this was a four year strategy this report is the first stage in the preparation of an updated MTFS to cover the three year period 2012–2015. 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 to be incorporated within the Council's Corporate Plan, and approved at the Finance Council in March 2012.
2. The framework will cover:
 - a. A review of the medium term financial strategy for 2011 - 2015
 - 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 to ensure the Council sets a balanced budget with continuing 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, such as the Corporate Plan, and other plans including the Medium Term Property Strategy, Asset Management Process, ICT Strategy, Carbon Management Plan and People Strategy.

Principles

6. The Council's MTF5 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 experienced a substantial reduction in resources for 2011/12 following the comprehensive spending review of 2010, with further reductions set out in the provisional settlement for 2012/13. In this framework, it is anticipated that the settlement for 2012/13 will confirm the provisional figures issued last year with few, if any, changes. It is not certain at what stage the government will set out provisional funding allocations for 2013/14 and 2014/15, but the comprehensive spending review indicates substantial further reductions for the Council in those years.

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, 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.

Council Vision and Priorities

10. The Council's MTFS incorporates the Council's vision and priorities which are mapped out in detail in the Corporate Plan. As agreed at Policy Council in 2010, the vision statement currently draws on the 2030 Vision priorities as follows:

“Creating a Connected, Prosperous, Clean, Safe and Health Blackburn with Darwen”

Policy Council in 2010 agreed Council objectives in two broad categories:-

- a) Community outcomes – reflecting the long term priorities of the 2030 Vision;

- Prosperous
- Connected
- Clean
- Safe
- Healthy

- b) Organisational outcomes – reflecting the short/medium term priorities for the Council and residents:

- Managing Risk – including keeping streets clean and roads in good condition
- Delivering Transformation – including improving town centres and encouraging residents to play a more active role in their local area

Policy Council today has been requested to agree that the Council's transformation programme adopt the following statement:

A Co-operative Council – partnering, supporting and working together to deliver the best service we can.

In approving the 2011/12 budgets, Capital Programme and the Medium Term Financial Strategy, the Council agreed significant reductions in service. However despite this, it established a programme which would contribute towards the delivery of its many priorities and objectives. Among its initiatives are:

- Investment in both Adult and Children's Social Care to assist with demographic pressures and safeguard the vulnerable.

- Proposals to transfer the management of Community Centres, some sporting facilities (such as bowling greens and playing pitches) and libraries to community and voluntary groups.
- Changes to Neighbourhood Services with the introduction of ward solution meetings leading the Council to connect better with its residents.
- The retention of funding and support for Police Community Support Officers thereby ensuring public safety
- The development of re-ablement services and the introduction of Telehealth and Telecare initiatives
- The establishment of a Transformation Team and programme to deliver efficiencies
- Continuing investment in regeneration projects to enhance the prosperity of the towns building on the success of the new developments at the Mall and in the Market.
- Investment in schools through the Blackburn BSF programme and re-development of primary schools
- Investment in a new Waste Treatment Plant

The Council managed its 2010/11 budgets efficiently and as a result was able to make some limited further investment in its key priorities with £1M being invested in roads and highways, £178K in environmental initiatives such as street cleaning and £250k for economic development and regeneration initiatives such as the redevelopment of the former markets site and the Evergreen Fund.

During 2011/12 the Council has implemented significant reductions to enable it to achieve a balanced budget. However it is also transforming its activities, developing co-operative working with its residents, communities, businesses and partners. In 2012/13 the Council intends to build on the foundations it has established and in so doing chart a course which will enable it to achieve its objectives during a challenging economic climate.

National Considerations:

Local Government Finance settlement

11. The Government intends to issue details of the provisional local government settlement in December, which is expected to largely confirm the figures previously issued for 2012/13, but it is not certain whether indicative figures for years 3 and 4 of the four year MTFs period will be issued. It is however clear from the CSR that significant reductions in overall funding can be expected.

Efficiency Programme

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

Pensions

13. The Local Government Pension Scheme (LGPS) is administered by Lancashire County Council and actuarial revaluations are undertaken every 3 years. The last revaluation has resulted in an increase in pension contributions each year from 2011/12 onwards.

Current Economic Outlook

14. The current economic forecast is one of a slow and uncertain 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 continue to be a key issue for consideration at Finance Council.

2011/12 Budget Monitoring Position

15. The Council set the 2011/12 budget with a view to ensuring that balances are maintained of a minimum level of around £4.5M over each of the next five years. The budget monitoring report to October Executive Board forecast balances to be around £6.5M at 31 March 2012. The minimum level of balances will be reviewed in the light of current economic circumstances, the continued turbulence in financial markets and government proposals to reform the financial frameworks governing local authorities.
16. A number of pressures are being identified in portfolios with action plans being considered by Executive Members to ensure these are addressed. Around these pressures are increasing demands for social care, (for both adults and children) a continuing decline in income, the need to invest in the infrastructure of the borough – all reflecting the current economic climate. The Council will also be affected by the government’s programme for significant Welfare Reform.
17. The Council will largely achieve the plans set out in its transformation programme. Progress is being closely monitored, however a limited number of savings are unlikely to be delivered in full as planned and portfolios are currently considering alternative proposals.

18. The Audit Commission has recently published its report “Tough times – Councils’ response to a challenging financial climate”. The Audit Commission found that the average cut in government funding for single tier and County Councils was equal to 6.3% of 2010/11 revenue spending, with 27 authorities seeing cuts equivalent to over 10%. Blackburn with Darwen Council is one of the 27 authorities. The Audit Commission also considered that most Councils were well prepared to meet the financial challenge. In the Annual Governance Report the Audit Commission commented favourably on this Council’s arrangements.

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

19. In January and March 2011 the Council approved its budget strategy for the next two years. These forecasts recognised that the Council had to make substantial savings, whilst allowing for some investment in priority areas. The Council took swift action to implement its plan and this has proved successful. The Council also set aside some resources and contingencies to enable it to meet the associated implementation costs both in the first year and beyond when further savings are required. To date these have proved more than adequate, with some funds remaining to meet costs and pressures in future years.
20. The Council’s financial position should now be considered in the light of the Comprehensive Spending Review and the Local Government Financial Settlement for 2011/12 and 2012/13. The Council faced a reduction of £33M in its grants in 2011/12 with a further indicative reduction of £8.6M in 2012/13. Based on the Comprehensive Spending Review, there will be further reductions in 2013/14 and 2014/15. In addition it is likely that the Council’s financial position will also be affected by the Local Government Resource Review and government proposals to localise Council Tax Benefit and business rates and the impact of Welfare Reform. The financial impact of these proposals can not yet be fully identified. In addition the Chancellor will present the Autumn Statement on 29 November 2011 and it is expected that the Local Government Financial Settlement will be published shortly afterwards. The Council’s financial forecasts will be revised in the light of these announcements.

COUNCIL TAX STRATEGY

21. The government provided all councils with a grant (payable for a four year period) equivalent to a council tax increase of 2.5% for 2011/12, and payable only if the council did not increase council tax that year. As a consequence no council, including Blackburn with Darwen, chose to increase council taxes accepting the grant instead.
22. The government has recently announced that it intends to provide a further grant, equivalent to a 2.5% council tax increase for 2012/13. However, this will be payable *only* for 2012/13, and again is subject to no council tax increase for that year. Because it is payable only for one year, if the Council accepts the grant, then a tax increase of 2.5% would further be necessary in 2013/14 purely to maintain the same base level of income, before considering any tax increase for 2013/14.

23. This means the Council would have to either implement a higher council tax increase than might otherwise have been considered, or would have to make further savings in 2013/14 as a consequence of the lost grant (approximately £1.25M).

CAPITAL STRATEGY

24. 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 £55M in 2012/13, £40M in 2013/14, £39M in 2014/15 and £22M in future years.

25. 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 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.

26. The Medium Term Financial Strategy depends upon the use of some receipts being 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 regeneration, asset management and invest to save projects.

RECOMMENDATIONS

- a) That Council endorses the 2 year budget strategy agreed in March 2011, of which 2012/13 was the second year.
- b) 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.
- c) That options are formulated for consideration and appraisal which reflect the council's priorities and ensure a balanced budget for the financial year is set at Finance Council in March 2012, whilst ensuring a minimum level of balances is maintained.
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