

DECISION FORM

Decision Form to be retained by Democratic Services – copy to be kept in Department



**SUBJECT: REVENUE BUDGET AND CAPITAL
PROGRAMME 2009/10 to 2011/12**

Decision to be taken by: Executive Board
Key Decision (NO)
Portfolio Area: Resources

Portfolios Affected: ALL

Wards Affected: ALL

Recommendations:

It is recommended that the Executive Board note the report.

Rationale:

The Council is required to set a revenue budget and council tax level such that projected expenditure is met fully by projected income.

Policy and Corporate Implications (including consultation process):

The budget process is the mechanism by which the Council allocates resources so that it can achieve its policy objectives set out in the Performance Agreement. Consultations have or will take place with the Trade Unions, Education Sector, Business Rate payers and other interested groups, as required by statute, before the budget is finalised.

Financial implications:

The budget process will determine the level of net revenue expenditure for the council in 2009/10, the capital programme and the level of council tax, together with indicative figures for the following two years.

Legal implications/Powers:

The Council is obliged by statute to set a balanced budget.

Other resource implications:

Decisions taken during the budget process will affect the resources allocated to all service areas.

Declaration of Interest: None

Signed:

Executive Member:

M. Lee

Date:

4/2/09

Also present:

Signed:

Chief Officer:

Denise Park

Date:

4/2/09

Background papers: A list of background papers on this issue is held with:

Denise Park on ext: 5655

Date of Publication of Decision: *13th February 2009*Date of Expiry of Call-In Period: *23rd February 2009*



EXECUTIVE MEMBER BRIEFING PAPER

TO: Leader of the Council
FROM: Strategic Director Resources
DATE: 12 February 2009

PORTFOLIOS AFFECTED: ALL

WARDS AFFECTED: ALL

TITLE OF BRIEFING PAPER **REVENUE BUDGET AND CAPITAL
PROGRAMME 2009/10 to 2011/12**

1. PURPOSE

- 1.1 To outline the parameters relating to the budget proposals and Medium Term Financial Strategy to be presented to the Council on 2 March 2009.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Executive Board note the report.

3. KEY ISSUES

3.1 Introduction

The Council is required to approve a revenue budget and capital programme and to set the level of council tax for the coming financial year. As in 2008, the Council will again also be asked to approve an indicative budget for the following two years.

Local Government Finance Settlement

The comprehensive spending review in the autumn of 2007 resulted in a three year financial settlement for local government; 2008/09 being the first year, with provisional figures announced for 2009/10 and 2010/11. The provisional figures for 2009/10 have been confirmed with no changes, 2010/11 figures remain provisional, but no figures will be available in respect of 2011/12 until after the next comprehensive spending review due in the autumn of 2009. Nevertheless the council will be able to plan ahead with some degree of certainty to 2010/11, but will have to make assumptions with regard to potential settlement figures for 2011/12.

Dedicated Schools Grant (DSG)

The Council has little influence or flexibility over funding available for schools-related expenditure which continues to be funded by this direct grant.

On the whole, schools received a good settlement with indicative figures of:

	<u>£M</u>	<u>Increase</u>	
		<u>£M</u>	
2008/09	102.4 #		
2009/10	105.0	2.6	(2.5%)
2010/11	109.6	4.6	(4.4%)

2008/09 allocation of £103.8M has been adjusted by £1.4M by removal of Darwen Moorland School in order to provide a like for like comparison with the later years.

3.2 Formula Grant Settlement 2009/10 and 2010/11

For this authority, the Government announced an increase in Formula Grant of 6.0% for 2009/10, which equates to approximately £4.3M.

	2008/09 £000	2009/10 £000	2010/11 £000
Formula Grant	73,481	77,804	81,683
Increase		4,323	3,879
% Increase Year on Year		6.0%	4.9%
National Average		2.86%	2.6%
Unitary Average		3.4%	3.0%
Contribution to the 'floor'		£8.3m	£6.8m

The table shows that overall this Council's increase in Formula Grant exceeds the National and Unitary Average. To an extent this reflects the Index of Multiple Deprivation (IMD) rankings as well as a reducing contribution to the "floor" explained below.

Nationally, in order to fund the minimum increase to authorities on the funding 'floor', there is a 'damping' mechanism which smoothes changes in grant allocations over time and those authorities due to receive significantly higher increases in funding see this scaled back. This 'damping' will continue to reduce over coming years, and contributes to larger than average increases in formula grant for each of the two years as shown above.

3.3 Spending Pressures and Investment Priorities 2009/10 to 2011/12

At Finance Council in March 2008, the Council agreed a 3 year indicative budget and the budget setting process this year took this as the starting point. However, the assumptions 12 months ago have been revisited and the budget will need to address a number of continuing cost pressures and investment priorities in the coming years which include:

- Inflationary Pressures (pay and prices), particularly in respect of fuel costs taking account where possible of extraordinary uncertainty and change in the current financial climate
- Major projects continuing or agreed
 - Town Centre redevelopment, incorporating the markets and cathedral quarter
 - Housing Market Restructuring
 - Darwen Leisure Centre
 - Feilden Street Car Park
 - Freckleton Street Masterplan
 - Kingsway Extra Care development
 - Building Schools for the Future
 - Impact of 2009/10 capital programme
 - Impact of falling interest rates on investment income
 - Impact of the current economic climate on services, incomes levels and capital receipts
- Investment to deliver the Council priorities in the Performance Agreement that will be confirmed at Finance Council.
- Pressures on waste management costs, including increases in landfill tax.
- Continuing and significant cost pressures on a number of portfolios.

It should also be noted that, following the 3 yearly revaluation in 2007 of the Lancashire Pension fund, the actuaries agreed that the employer's pension contribution rate did not need to be increased in the next 2 years. However, it is envisaged that increased contributions will be required in 2011/12 when the next triennial valuation has been undertaken.

3.4 Balancing the Revenue Budget

As always, when balancing the budget, the Council will need to consider:

- a) Council tax levels
- b) Use of one-off contributions from revenue reserves to support the revenue budget
- c) Policy and budget priorities (service reductions and growth)
- d) Efficiency gains, whether at departmental or corporate level
- e) Level of net expenditure to be approved

These decisions are inter-connected. Members will need to consider which combination of net expenditure, use of reserves and council tax increase they wish to approve.

Policy Council in December 2008 reaffirmed the strategic framework for the Performance Agreement and Medium Term Financial Strategy (MTFS) which will be reflected in the budget.

As reported to previous Executive Board meetings, there have been some additional spending pressures in 2008/09, the most significant being in respect of gas and electricity prices. Substantial savings have also been made (mainly

as a consequence high interest rates being earned on investments during the first part of the year), and balances are currently predicted to be in excess of the recommended minimum at 31 March 2009. This may allow reserves to be utilised in the short term. While the Local Government Act requires a formal report to Finance Council on the level of balances to be retained, the Strategic Director Resources provisionally recommends that the Council should maintain working balances at or around £4 million as the minimum pending a more formal report being prepared.

3.5 Council Tax Levels

The Government's expectation, outlined in the settlement is that, nationally, council tax increases will be kept substantially below 5%. This to apply equally to Police and Fire Authorities. Latest survey information from the Local Government Association (LGA) indicates potential increases of around 3.5% as the national average.

The pre-budget MTFS indicated council tax increases would continue to be at least 0.5% below the level of inflation as set out in the MTFS 2008-11. The Retail Price Index comprises both month on month changes (which have ranged between 2.2% and 4.8% over the last 6 years, with the December 2008 figure falling to a low of only 0.9%), and average annual figures (which have ranged between 2.8% and 4.3% over the last 6 years, with the most recent December figure being 4.0%). However, with the unprecedented changes in financial markets, the unstable economic outlook and changes in VAT, the monthly RPI has shown some unusual volatility and is not currently a reliable indicator of trends. The monthly rolling average can smooth this volatility.

The consumer price index (CPI) is now the measure of inflation most commonly referred to by the media and has become a more generally accepted measure of inflation. In December 2008, the CPI was 3.1%. RPIX, the measure of RPI inflation excluding mortgage interest payments was 2.8% in December 2008.

The level of Council Tax increase for 2009/10 will be recommended to Finance Council on 2 March and will need to take account of current inflation rates and the impact of the current global economic instability on the Council budget and of the impact of cost increases on tax payers.

The expected dates for agreeing the increase in the Lancashire Fire and Police precepts are 13 February and 16 February respectively.

3.6 Three Year Forecast

Three-year forecasting has historically been a difficult exercise, largely due to the extent to which funding for Local Government has been determined and provided by Central Government.

The move to a 3 year settlement last year allowed 3 year forecasting into the medium term to become a fundamental part of the budget setting and overall Council Planning process. However, it should be noted that this will not be extended to 2011/12 until later in 2009 following the next comprehensive spending review.

The Finance Council will not only formally agree the revenue budget and capital programme for 2009/10 and set the level of council tax, but will approve the Performance Agreement, which in itself will embody the medium term financial strategy 2009-2012.

This will continue to be refreshed each year but 2011/12 and thereafter are still subject to Government funding decisions and the new year added will be based very much on estimated figures.

3.7 Capital Programme

The Capital Programme will be presented to Finance Council on the 2nd March 2009 as part of the overall budget. Whilst the forecast level of capital receipts has reduced in the current economic climate, it is anticipated that the Council will be able to combine investment from resources such as borrowing with major external funding streams (e.g. Housing Market Renewal and Town Centre Redevelopment) resulting in a significant overall capital investment programme to improve services and regenerate the borough.

3.8 Area Based Grant

From 2008/09 the Government introduced an Area Based Grant. This is a non-ringfenced government grant that now includes a number of previous specific grants across all services, including Working Neighbourhoods Fund (the successor to Neighbourhood Renewal Fund) and LEGI (Local Enterprise Growth Initiative). Being a general grant, the council is able to allocate funding in accordance with local priorities agreed via the Local Strategic Partnership, and as part of the Local Area Agreement.

4. RATIONALE

- 4.1 The Council is required to set a revenue budget and council tax level such that projected expenditure is met fully by projected income.

5. POLICY IMPLICATIONS

- 5.1 The budget process is the mechanism by which the Council allocates resources so that it can achieve its policy objectives set out in the Performance Agreement.

6. FINANCIAL IMPLICATIONS

- 6.1 The budget process will determine the level of net revenue expenditure for the Council in 2009/10, the capital programme and the level of council tax, together with indicative figures for the following two years.

7. LEGAL IMPLICATIONS

- 7.1 The Council is obliged by statute to set a balanced budget.

8. RESOURCE IMPLICATIONS

- 8.1 Decisions taken during the budget process will affect the resources allocated to all service areas.

9. CONSULTATIONS

- 9.1 Consultations have or will take place with the Trade Unions, Education Sector, Business Rate payers and other interested groups, as required by statute, before the budget is finalised.

CONTACT OFFICERS: Denise Park, Strategic Director Resources, ext. 5655
DATE: 28 January 2009
BACKGROUND PAPER: Local Government Finance Settlement Papers; Budget Working Papers held in Financial Services Directorate and Service Departments.