



EXECUTIVE MEMBER DECISION FORM

DECISION TO BE TAKEN BY: Executive Board

KEY DECISION NO

PORTFOLIO AREA: ALL

PORTFOLIOS AFFECTED: ALL

WARDS AFFECTED: ALL

SUBJECT: REVENUE BUDGET AND CAPITAL PROGRAMME 2010/11 to 2012/13

1. RECOMMENDATIONS:

It is recommended that the Executive Board note the briefing paper.

2. REASONS FOR THE DECISION

The Council is required to set a budget annually. A report has already been submitted to Policy Council on 3rd December 2009; Finance Council will consider the 2010/11 Revenue Budget and Capital Programme on 1st March 2010.

3. STATEMENT OF COMPLIANCE

The recommendations are made further to legal advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

4. DECLARATION OF INTEREST

None

<p>Signed: <i>Colin Rigby</i></p> <p>Executive Member: COLIN RIGBY</p> <p>Date: 1.2.2010</p> <p>Also present:</p>	<p>Signed: ELIZABETH HALL</p> <p>Chief Officer: <i>Elizabeth Hall</i></p> <p>Date: 1.2.2010</p>
<p>Date of Senior Policy Team Meeting(s):</p>	

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

Contact Officer: Elizabeth Hall
Date: 26 January 2010

Date of Publication: *12th February 2010*

Date of Expiry of Call-In Period: *18th February 2010*



EXECUTIVE MEMBER BRIEFING PAPER

TO: Executive Member (Resources)
FROM: Director of Finance
DATE: 19th February 2010

PORTFOLIOS AFFECTED:

ALL

WARDS AFFECTED:

ALL

KEY DECISION: NO

SUBJECT: REVENUE BUDGET AND CAPITAL PROGRAMME 2010/11 to 2012/13

1. PURPOSE

- 1.1 To outline the parameters relating to the budget proposals and Medium Term Financial Strategy to be presented to the Finance Council on 1st March 2010.

2. RECOMMENDATIONS

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

3. BACKGROUND

- 3.1 The Council is required to set a budget annually. A report has already been submitted to Policy Council on 3rd December 2009; Finance Council will consider the 2010/11 Revenue Budget and Capital Programme on 1st March 2010.

4. RATIONALE

- 4.1 This report outlines the current financial settlement this council has received and its spending pressures and priorities. It sets out both the content and key issues the council will consider when setting its budgets.

5. KEY ISSUES

- 5.1 Introduction

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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 and 2009, 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 were confirmed with no changes. The provisional 2010/11 figures have also now been confirmed with no changes; however, no figures will be available in respect of 2011/12 until after the next comprehensive spending review. This is now not expected to be published until summer 2010 at the earliest. The Council will therefore have to make assumptions with regards to potential settlement figures for 2011/12 and 2012/13. There is currently considerable uncertainty surrounding future settlements due to current economic conditions and projected deficits in public sector finances.

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	105.2	2.8	(2.8%)
2010/11	109.7	4.5	(4.2%)

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.

5.2 Formula Grant Settlement 2010/11

For this authority, the Government announced an increase in Formula Grant of 4.9% for 2010/11, which equates to approximately £3.8M.

	2008/09 £000	2009/10 £000	2010/11 £000
Formula Grant	73,481	77,804	81,633

Increase		4,323	3,829
% Increase Year on Year		5.9%	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.

5.3 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. In March 2009, the Council reviewed assumptions when setting the 2009/10 budget. However, the assumptions 12 months ago have also 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), though these have proved lower than originally anticipated.
- Major projects continuing or agreed
 - Town Centre redevelopment, incorporating the markets and cathedral quarter
 - Housing Market Restructuring
 - Freckleton Street Masterplan
 - Kingsway Extra Care development
 - Building Schools for the Future
 - Impact of 2009/10 and 2010/11 capital programme
 - Impact of reduced 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 3 years (2008/09 – 2010/11). However, it is envisaged that increased contributions will be required from 2011/12 when the next triennial valuation has been undertaken.

5.4 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 2009 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 2009/10, the most significant being in respect of the costs of commissioning care in Children's Services. Savings have also been made and the Council has received a significant refund of VAT paid in previous years following the Fleming case. Balances are currently predicted to be in excess of the recommended minimum at 31 March 2010. 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 Director of Finance provisionally recommends that the Council should maintain working balances at or around £4 million as the minimum and if possible look to increase these given the current uncertainty about future funding.

5.5 Council Tax Levels

The Government's expectation, outlined in the settlement is that, nationally, council tax increases will fall to a 16 year low, with strong hints that expectations may be that no more than a 3% increase will be acceptable. This to apply equally to Police and Fire Authorities.

The pre-budget MTFS indicated that the policy of keeping council tax increases below the rate of inflation may need to be reviewed. The latest Consumer Price Index (CPI), the measure most commonly referred to by the media, is 2.9%. RPIX the measure of inflation excluding mortgage interest payments is 3.8%, whilst the RPI (Retail Price Index) has risen to

2.4%. With capping limits possibly being set as low as 3%, it is unlikely that council tax increases will be set any higher than current inflation rates.

The level of Council Tax increase for 2010/11 will be recommended to Finance Council on 1st March 2010 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 15th February for both.

5.6 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 from 2008/09 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 2010 following the next comprehensive spending review.

The Finance Council will not only formally agree the revenue budget and capital programme for 2010/11 and set the level of council tax, but will approve the Performance Agreement, which in itself will embody the medium term financial strategy 2010 – 2013.

This will continue to be refreshed each year but 2010 - 13 and thereafter are still subject to Government funding decisions and the new year added will be based very much on estimated figures. As mentioned earlier there is considerable uncertainty surrounding future statements.

5.7 Capital Programme

The Capital Programme will be presented to Finance Council on the 1st 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 in the short term (e.g. Housing Market Renewal and Town Centre Redevelopment) resulting in a significant overall capital investment programme to improve services and regenerate the borough.

5.8 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.

6. POLICY IMPLICATIONS

- 6.1 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.

7. FINANCIAL IMPLICATIONS

- 7.1 The budget process will determine the level of net revenue expenditure for the Council in 2010/11, the capital programme and the level of council tax, together with indicative figures for the following two years.

8. LEGAL IMPLICATIONS

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

9. RESOURCE IMPLICATIONS

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

10. CONSULTATIONS

- 10.1 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.

<p>Signed: </p> <p>Director Legal Services:</p> <p>Date: 2/2/10</p>	<p>Signed: </p> <p>Director of Finance:</p> <p>Date:</p>
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CONTACT OFFICER: Elizabeth Hall, Director of Finance, ext. 5482
DATE: 26 January 2010
BACKGROUND PAPER: Local Government Finance Settlement Papers; Budget Working Papers held in Financial Services Directorate and Service Departments.