

REPORT TO	DATE OF MEETING
Cabinet	21 February 2012

Report template revised February 2007



SUBJECT	PORTFOLIO	AUTHOR	ITEM
Financial Strategy, Budget and Council Tax 2012/13	Finance & Resources	Susan Guinness	5

SUMMARY AND LINK TO CORPORATE PRIORITIES

This report provides background information that will need to be taken into consideration in determining the Council's forward financial strategy and, specifically, budget and council tax for 2012/13. The Medium Term Financial Strategy (MTFS) recognises the priorities set out in the Corporate Plan and risks identified through the corporate risk assessment processes. The MTFS recognises the significant uncertainty surrounding government grant funding beyond the first two years of the Comprehensive Spending Review. The Council's Corporate Plan has also been put together in a way that acknowledges this and allows for priorities to be adjusted in the light of available funding in 2013/14 and beyond.

RECOMMENDATIONS

Revenue Estimates

1. Cabinet consider for approval the council's projected out-turn estimates for 2011/12, the original estimate for 2012/13 and indicative original estimates for 2013/14 through to 2015/16, summarised at Appendix A to this report.
2. Cabinet consider Appendix E and the proposals designed to further improve efficiency/increase income and reduce the forecast budget deficit, noting they have already been incorporated into the draft budget proposals for 2011/12 and future years.
3. Cabinet recommend to Council that the forecast residual revenue funding deficit (projected out-turn) 2011/12 (£0.305 million) and original estimate 2012/13 (£0.417 million), be addressed through making appropriate contributions from the General Fund Reserve.
4. Subject to any amendments proposed in considering recommendations 1 – 3 above, Cabinet recommend a Borough Council Net Expenditure requirement for 2012/13 (including parish/town council precepts) for approval at the council meeting on 29 February 2012.
5. Cabinet review and confirm that the reserves, detailed in the report, should be retained by the council and are adequate to support the delivery of the medium term financial strategy.
6. The Chief Executive be authorised to deal with all staffing issues arising from the report within the agreed budget and in accordance with council's human resources policies. This will be done in consultation with the Leader, and in her absence the Deputy Leader, and the Cabinet member with responsibility for Finance and Resources and other relevant Cabinet Members..

Council Tax

7. Subject to consideration of recommendations 1-6 above, Cabinet recommend the Borough Council's Band D equivalent council tax for 2012/13, for approval at the council meeting on 29 February 2012, be increased to £208.38 from the current year's level of £203.30 (*an increase of £5.08 p.a. £10 pence per week) or 2.5%*).
8. As in previous years the Council's share of additional council tax levied through the reduction of the discount on second homes will continue to be used to support the South Ribble Partnership.

Capital Programme/Budget

9. Cabinet approve the Capital Programme as set out at Appendix F along with the proposed funding.

DETAILS AND REASONING

Revenue Budget Out-turn 2011/12

The budget for the current year was set at £13.165million (excluding parish precepts). It incorporated substantial proposals to improve efficiency, reduce expenditure and generate additional income totalling £1.819 million. It was therefore anticipated that a budgeted contribution of £0.430 million would also be required from the General Reserve to balance the overall forecast budget gap of £2.249 million.

The Council's performance management framework provides the basis through which the overall performance of the Council is regularly monitored, managed and reviewed. Financial performance forms an important and integral part of this framework. Financial performance reporting is considered by Cabinet Members and officers alongside key performance indicator data on a monthly basis. The Governance Committee provides member oversight and scrutiny of the Council's financial arrangements and performance. The Committee has received financial monitoring reports on a quarterly basis during 2011/12.

Also, the Council's External Auditor recently commented that *".....the Council has adopted a strategic approach to dealing with a significant reduction in resources. It has a good track record in identifying and delivering significant savings whilst also maintaining or improving services.....Its response to the current financial climate together with its track record, indicate it is well placed to meet this challenge....."*

The projected out-turn estimate for 2011/12, summarised at Appendix A, provides the latest position following extensive discussion with both Cabinet Members and the Council's Senior Management Team. Significant oversight and challenge to the compilation of the budget has been provided especially by the Cabinet Member for Finance & Resources.

As set out in Appendix A the projected out-turn for the current year is forecasting a lower than expected year end net expenditure position of £13.330 million (excluding parish precepts). This will result in a forecast contribution from the General Fund reserve of £0.305 million. Whilst we are still forecasting a budget deficit, this represents an improvement of £0.125 million and places the Council in a stronger financial position than was originally anticipated. A summary analysis of the reasons for this improved financial position, highlighting the significant budget variations, can be found at Appendix C.

Members will note from Appendices C and D that of the specific budget saving targets totalling £1.819 million (comprising of both additional income and reduced expenditure) £1.461 million is now forecast to be delivered by the end of this financial year. This includes:

- A reduction in staffing costs of £1.120 million achieved by reviewing staffing structures, managing vacancies, the selective use of early retirement and voluntary redundancy and embarking on collaborative working, increasing to an annual recurring benefit of £1.428 million in future years.
- Additional recurring income of £0.075m achieved through the rental of further office accommodation at the Civic Centre.
- A review of the vehicle fleet requirements to significantly improve operational efficiency and reduce transport costs by £0.113 million.

Although this would suggest there will be a forecast shortfall of £0.358 million against the specific 2011/12 Budget Efficiency Programme work has been successfully undertaken to identify ways of offsetting this. This work has formed the basis of preparing the proposed 2012/13 Budget Efficiency Programme (Appendix E). However, an early start to the process has managed to bring forward the impact of some of those savings (£0.378m) into 2011/12. These more than compensate for the current year's savings shortfall.

Future Years - Revenue Budget 2012/13 – 2015/16

REVENUE BUDGET FORECAST

The Revenue Budget forecasts for 2012/13 and beyond are set out in Appendices A and B.

The Council continues to be faced with challenges in ensuring it is able to balance its budget in both the short and medium term due to a number of national external influencing factors:

- A continued pressured economic climate, both in terms of increased demand on services and reductions in income.
- Substantial reductions in Formula Grant as the Coalition Government addresses the national public spending deficit.
- Increased uncertainty in Core Funding from Central Government in terms of both a reduced settlement period from 4 years to just 2 years and annual variable grants.
- The Localism Act contains a number of proposals promoted to give local authorities new freedoms and flexibility, including new rights and powers for communities and individuals, reform of housing and reform of the planning system. As a consequence there may be further implications on the Council's finances, but these are currently unquantifiable.
- The Government is currently consulting on or has proposals for, a range of initiatives that will impact on the Council over the medium term, the key items include: Business rates retention; Localising support for council tax; Housing benefit reforms; Planning reforms; Pension scheme review; Governance reforms, Public services white paper; Local authority resources review.
- The Local Government Bill, which will ultimately enact Business rates retention reform, was presented to the House of Commons on 10th January. Full details of this reform and the likely impact on the Council will only be known in late 2012. The absence of any detail or exemplifications make it impossible to predict with any confidence the grant levels after 2013/14.

The Medium Term Financial forecasts make no assumptions about the possible impact of the initiatives referred to in the final three points (above). This is because there is currently a high amount of uncertainty as the Government explores various implementation scenarios. These areas will be kept under review as further information on their impact becomes available.

As in previous years, the need to deliver substantial year on year efficiencies will need to be a continuing feature of the Medium Term Financial Strategy. Therefore for 2012/13, after taking into account proposed efficiency savings and additional income of £0.644 million (Appendix E), a

forecast contribution of £0.417 million will be required from the General Fund Reserve to help support and sustain service delivery standards in the transition towards a balanced budget in the medium term.

The budget requirement forecasts shown in Appendix A include deductions for recurring efficiencies proposed and show the required contributions from reserves in future years. As highlighted above, it should be noted that financial forecasts beyond 2012/13 could be significantly affected by the outcome of the Government's review of Formula Grant distribution. This is currently planned to take place over the coming months with any proposed funding announcements applicable from 2013/14 expected in the autumn.

In compiling the budget forecasts, a number of specific and key issues have been considered, as follows:

- Impact of known budget decisions taken by partner organisations;
- Issues identified through the preparation of the draft risk register;
- Revenue Support Grant Settlement – 2012/13;
- New Homes Bonus grant;
- Pension Fund Revaluation;
- Key assumptions made in preparing the estimates as set out at Appendix G;
- The Capital Programme and revenue implications
- Nationally set budget and council tax increase rules/guidelines; and
- The need to maintain an adequate level of reserves.

Local Government Finance Settlement

The Government confirmed the second year of the two year Local Government Finance Settlement (LGFS) on 31 January 2012.

The Formula Grant received in 2011/12 was £5.387 million which reduces to £4.647 million in 2012/13. On a like for like basis, this represents year on year grant reductions of £1.041 million (16.19%) and £0.699 million (13.08%) in each of the two years. It is important to note that these grant reductions are made on a recurring basis. These figures also contain a further reduction to the Council's grant in the sum of £0.181m in respect of "grant damping" which the government subsequently re-distributes to other local authorities across the country. This is explained further below. In addition, there is a second year allocation of the 2011/12 Council Tax Freeze Grant of £0.189 million.

No detailed indication of grant funding for the final two years of the Comprehensive Spending Review (2013/14 and 2014/15) is currently available.

In addition, Council Tax Referendum thresholds for 2012/13 have been announced and set at 3.5% for single tier, county councils and shire districts, 4% for police and fire authorities and the GLA and 3.75% for the City of London. These thresholds are 1% above the percentage increase that will be used to calculate the "one year" (one-off) council tax freeze grant for 2012/13. This grant will only be paid to those councils choosing not to increase their Council Tax in 2012/13.

Appendices I and J to this report provide details of both the changes to revenue spending power and grant announced in the LGFS in January 2011 and 2012. The tables compare information for the Council with that for other Lancashire local authorities and show that, over the two years, we have been the worst affected in terms of the percentage reduction in government grant .

“Grant Damping” (Grant equalisation – see also Appendices J & L)

“Grant damping” is a system designed to cap or limit grant reductions. The “damping” system, as in previous years, operates nationally on a self-financing basis within each group of authorities, i.e. authorities in one group (e.g. district councils) will not cross-subsidise authorities in another group (e.g. Education authorities). It places individual local authorities into one of four bands based on an overall ranking, determined by grant dependency. This is defined by the proportion of the 2010/11 budget requirement that was funded through Formula Grant; and ensuring there are an equal number of authorities in each of the four bands. We are classed as being less reliant on government grant funding and, as a consequence, have been allocated to the top of the four bands, being considered capable of absorbing the maximum percentage grant reduction. It results in us paying £0.181 million into the grant “damping pool” in 2012/13 (£0.115 million in 2011/12). These amounts are used to compensate other district councils and are allowed for within the grant figures quoted in the previous section of this report.

Council Tax “Freeze” Grant

In lieu of approving no increase in council tax in 2011/12, the Government paid each local authority a grant equivalent to the money that would have been generated by a 2.5% council tax increase. This grant will be payable annually and is guaranteed until 2014/15. It does not prevent local authorities from approving council tax increases for years 2012/13 and beyond. In our case the grant payable amounts to a grant of £0.189 million per annum. If the government doesn’t continue with this funding in 2015/16 the Council will need to be in a position to replace it with either additional council tax income (equivalent to a 2.5% increase) or budget savings or income from services.

The Government has announced that a further Council Tax “Freeze” Grant is available for 2012/13, however, unlike the 2011/12 allocation, this is currently only payable in 2012/13. The amount of one-off grant on offer is again equivalent to an increase in council tax of 2.5% or £189,000.

New Homes Bonus (NHB) Grant

The Government introduced this grant system in 2011/12 as an incentive for house building across the country. NHB is based on the average national Band D council tax for each new property built, with an additional top-up payable for affordable properties constructed. The funding is not ring-fenced and therefore can be used for wider service provision or specific amenities needed to support any new development.

The New Homes Bonus allocation for 2011/12 was £0.165 million and will increase by £0.161 million to £0.326 million in 2012/13. The allocation for 2012/13 incorporates the first affordable homes premium. It is important to note that, whilst the annual NHB allocations are made to councils as aggregated payments, the NHB allocations for each year are separate and discrete. This becomes important for financial planning as each discrete annual allocation is only payable for 6 years.

Pension Fund Revaluation

The Local Government Pension Scheme (LGPS), administered by the County Council in Lancashire, was re-valued in 2010/11 with new employer contribution rates taking effect from April 2011. The revaluation exercise has produced a revised “target rate” of 21.3% to be achieved by 2013/14 through annual increments of 1%. A 13% reduction in the number of South Ribble “pensionable” employees paying into the LGPS since the last revaluation has created some upward pressure on this headline percentage rate to maintain the recovery of the deficit on the fund. The Government is also currently conducting a comprehensive review of all public sector pension arrangements, including the LGPS.

Public Sector Pay Restraint

The Autumn 2011 Spending Review Update set out the Government's intention to extend the period of Public Sector Pay Restraint by a further two years to the end of 2014/15. It is the Government's intention that in these two years following the current pay freeze, average public sector pay awards will be no more than 1% per annum. In Local Government, where Central Government does not control pay awards, the finance settlements will be adjusted on the assumption that this policy is followed.

Planning Fees

The Government previously announced that from 2011/12, Local Planning authorities were to set their own planning fees, with the major premise being that Local Planning Authorities (LPAs) should recover the full costs of dealing with planning applications. However no legislation has been put in place yet and local authorities continue to work with the Planning Advisory Service on benchmarking the costs of the planning service. If the Government produces regulations and detailed guidance, a full report on the proposed approach and the full implications will be presented to both Cabinet and Planning Committee.

There have been no announcements regarding the proposed level of fees for the next financial year (2012/13) and therefore the budget forecasts are based on the current fee levels.

Trade Waste – Disposal Charges

Along with other authorities providing a trade waste service, the Council currently has an arrangement with Lancashire County Council (LCC) for the disposal of trade waste. LCC are currently reviewing their charges for this service and have been in dialogue with the authorities affected. The current budget for disposal charges is £213k per annum for 2011/12. The latest position is that LCC, having postponed any significant increase for twelve months and will significantly increase the charge in 2012/13. Officers are currently exploring the opportunities and costs associated with alternative disposal arrangements to those provided by the County Council.

Community Safety Funding

The overall reductions in public sector expenditure have placed considerable pressure on grant and partnership funding administered by our Community Safety Partnership (CSP). At the time of drafting this report we are currently awaiting a decision from the Safer Lancashire Board as to the amount of funding it will be allocating to our CSP. Once this is known we will be able to finalise the local community safety priorities and determine whether there is going to be an overall funding shortfall. We have also been discussing with members of South Ribble Partnership the potential impact a further funding reduction may have in this area. An update will be provided at the Cabinet meeting.

Whilst the Council is proposing to honour its two year commitment (2012/13 being the second year) to provide £44,000 to fund Police Community Support Officers (PCSOs), the election of a Police & Crime Commissioner later this year is expected to radically change the way funding for community safety is distributed in 2013/14. In setting our budget for 2013/14 we will need to critically review all funding priorities in this area in the light of any new arrangements introduced alongside the new Police & Crime Commissioner for Lancashire

South Ribble Partnership – Performance Reward Grant

Due to the achievement of LAA targets, the South Ribble Partnership (SRP) received a proportion of further reward grant funding of £169,062 during 2011/12. Although we act as the accountable body for this funding and receive the funds in our accounts, it is for the SRP to determine how it should be used to support priorities identified within the Sustainable Communities Strategy.

Council Tax on Second Homes

With effect from 2004/5 the Government introduced legislation giving billing authorities (in Lancashire, district and unitary councils) the discretion to reduce the previously mandatory council tax discount on second homes, from 50% to a minimum of 10%. Any such reduction in the discount generates additional council tax income. The other precepting authorities agreed to a scheme to utilise the additional council tax income to support Local Strategic Partnerships (LSP) and Crime and Disorder Reduction Partnerships (CDRP), provided that the respective district council agrees to the same course of action with its additional tax income. The Cabinet is asked to reaffirm that, as in the current year, the Council's share of the additional council tax levied through the reduction of the discount on second homes is used to support the South Ribble Partnership.

Consultation Process

Following substantial consultation with local people, the budget proposals included within this report are designed to support the Council's corporate priorities and local area plans, prepared for each of the five My Neighbourhood Forums. During 2011/12 these Forums were established by the Council to improve the engagement of communities in influencing what happens around them and how the Council and partners allocate resources. The Council's plans and budget also acknowledge the work that has been undertaken through South Ribble Partnership to update the Sustainable Communities Strategy. The budget proposals do however recognise the financial constraints that have now been imposed on all local authorities. The budget proposals will be made available for local people and businesses to comment on and any feedback received will be taken into consideration before the budget is finalised at the Council meeting on 29th February 2012.

PRUDENTIAL CODE AND CAPITAL PROGRAMME/BUDGET

Prudential Code

Capital expenditure incurred by the Council is controlled and governed by guidance set out in the Prudential Code for Capital Finance in Local Authorities (the Code). The professional code of practice sets out a framework for self-regulation of capital spending, in effect, allowing councils to invest in capital projects without any limit as long as they are affordable, prudent and sustainable. The Code allows the council to determine the appropriate level of capital investment to properly deliver quality public services, subject to affordability.

Members' involvement in the decision making and monitoring process is considered essential in order that the Council can demonstrate that capital expenditure plans are affordable, external borrowing is prudent and sustainable and that treasury decisions are taken in accordance with good practice. The detail in this regard is the subject of a separate report on the Cabinet agenda (*Treasury Strategy and Prudential Indicators 2012/13 to 2014/15*).

Capital Budget 2011/12

Appendix F to this report summarises the projected expenditure and revised phasing of capital projects already committed in the council's capital programme. This is further detailed by Cabinet portfolio.

Capital Programme 2012/13 and future years

The need to support the Council's corporate plan to ensure the overall priorities of the Council are achieved means that an overview of the linkages between service specific strategies and plans must be taken in determining capital investment priorities. The proposals being brought together in the Capital Programme as shown at Appendix F fall into the following categories:

- ❑ Asset Management Plan requirements (*essential to service delivery*):
 - ❑ Land and Buildings;
 - ❑ Vehicles & Plant renewal and replacement;
 - ❑ Information Technology - schemes designed to continue the Council's investment in this area and replace/upgrade existing technology considered essential to support service delivery.
- ❑ Schemes that relate to regeneration projects and where funding has been identified.
- ❑ Housing capital programme (incl. disabled facilities grants).
- ❑ Playgrounds/Open Space (incl. schemes funded from s106 agreements).
- ❑ Schemes with health & safety implications.

That said, the capital programme priorities have needed to be considered against the back drop of the difficult financial climate generally facing all businesses and householders, from which the Council is not immune. The current financial constraints imposed on all local authorities as a consequence of the Comprehensive Spending Review has meant that the proposed Capital Programme has been critically reviewed to ensure it is realistic in terms of affordability and our ability to deliver projects/scheme within the timescales indicated. Within this context the proposed Capital Programme is set out at Appendix F from 2012/13 to 2015/16. The programme will continue to be subjected to a fundamental annual review to ensure that expenditure plans remain relevant to corporate and service priorities prevailing at that time.

Housing Capital Allocations

Our Housing service is the only area in which we currently receive annual capital expenditure funding support from the Government. The table below sets out the capital grant support we have received from Government over the last two years and the significant reductions we have faced:-

	Actual 2010/11 £	Actual 2011/12 £	Increase (Decrease)	Provisional 2012/13 £	Provisional Increase (Decrease)
Disabled Facilities Grants	201,000	281,000	40.0%	201,000	(29.0)%
Regional Housing Pot - Grant	844,000	0	(100.0)%	0	-
Total	1,045,000	281,000		201,000	

After the end of 2010/11 there was no longer a Single Capital Pot for private sector renewal provided by the Government. The reason given for this was that the government wished to reduce the number of different funding streams and ring fencing, reduce the overall spending to tackle the national budget deficit and also let local authorities decide their own local priorities. Essentially this means that if the council feels that private sector renewal is a local priority it now needs to divert other resources for this purpose.

The ring-fencing of Disabled Facilities Grants (DFG's) funding was removed from 2011/12 onwards. This means that the Council could use this resource for other purposes but in setting the budget it has been assumed that it will continue to be used in full for DFG's in line with previous practice. In January, the Council received notification of an additional subsidy allocation for 2011/12 of £48,000 for Disabled Facilities Grants, increasing the in-year grant from £233,000 to £281,000. The indicative Housing capital programme is included in Appendix F.

Other Key Points

The proposed Capital Programme (Appendix F) is fully funded and the revenue implications have been incorporated within the Revenue Estimates summary at Appendix A.

Appendix H sets out the priority schemes emerging from the five new My Neighbourhood Forums together with an estimate of the Council's contribution towards the total project cost. The proposed funding for these schemes is primarily from s106 developers' contributions which the Council has received to date. The actual financing arrangements will be determined as and when projects are more formally scoped and appraised

Funding for the Disabled Facilities Grant programme from 2012/13 onwards is based on an estimate of the funding available, as no confirmation of funding has been received from the Government yet.

Finally, the practice of including a budget allowance for professional/technical fees within Capital Programme project estimates has continued. This ensures we have the capacity (people and skills) and money to deliver a realistic programme of works.

Capital Reserves

The following table provides a detailed forecast of the capital receipts reserves for the period up to 31st March 2016. Capital receipts are used to support the Council's Capital Programme and the figures below have been adjusted to take into consideration the proposed funding of the Capital Programme in Appendix F.

Reserve	Projected Balance 31 March 2012 £000	Projected Balance 31 March 2013 £000	Projected Balance 31 March 2014 £000	Projected Balance 31 March 2015 £000	Projected Balance 31 March 2016 £000
Capital Receipts Reserve	679	599	599	599	599
Earmarked Receipts	595	553	510	490	470
Preserved Right to Buy Receipts	1,056	906	906	906	906
Total	2,330	2,058	2,015	1,995	1,975

Revenue Reserves

The requirement for financial reserves is acknowledged in statute. The Local Government Act 2003 requires both billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating its budget requirement. These existing safeguards are further reinforced through the Audit Commission's audit and inspection processes, whereby the financial performance and standing of an authority is assessed and categorised. One aspect of the authority's financial standing that is assessed is the level of financial reserves. Given the financial challenges that are facing every local authority the Audit Commission has been paying particular attention to the financial resilience of local authorities as part of their audit. As previously referred to financial challenges to Councils are increasing with a new era of Local Government core grant funding whereby significant funding streams are increasingly uncertain as they are calculated using fluctuating and variable factors on an annual basis.

Balancing the annual budget by drawing on general reserves may be viewed as a short-term option but where reserves are deployed to finance recurrent expenditure this should be made explicit by the Council's Chief Financial Officer (Chief Executive). Members must note that the use of balances in this way is not sustainable.

As part of the budget setting process, the council is required to confirm the adequacy of reserves in the light of its final spending plans. The level of reserves held by the council, both general and those earmarked for specific purposes, is a decision for the council in the context of the financial risks facing it. There is no specific guidance on what constitutes a reasonable level of reserves as the circumstances facing each individual local authority will differ. It is important, however, that any decision in this regard is taken in the context of the Medium Term Financial Strategy and is not based on just a single one year view. In this regard, the council has a good track record of taking a medium to longer term view when assessing its financial position and therefore the required level of reserves. This has led to consistently positive comments on the council's overall financial standing from the External Auditor.

The level and relevance of the reserves held by the council is the subject of an ongoing review. However, specifically, Members are reminded that a critical review of the level of reserves held by the Council is completed as part of the annual budget setting process and, at the end of each

financial year, in preparing the Statement of Accounts. At each of these points the council is asked to approve the reserves being held. The Governance Committee last received a comprehensive report on this topic at its meeting on 28 September 2011 and was satisfied with the approach adopted by the Council..

The Table below highlights the projected levels of revenue reserves, based upon **provisional** budget figures appended to this report. This is currently set out prior to Cabinet consideration and agreement of priorities. It assumes that the projected out-turn deficit for 2011/12 and that forecast for 2012/13 are funded through making contributions from the General Fund Reserve.

Reserve	Projected Balance 31 March 2012 £'000	Projected Balance 31 March 2013 £'000	Projected Balance 31 March 2014 £'000	Projected Balance 31 March 2015 £'000	Projected Balance 31 March 2016 £'000
General Fund	3,708	3,292	3,225	3,225	3,225
ICT Strategy	1,528	1,404	419	504	804
Elections	56	85	115	145	86
Asset Management	1,969	787	622	596	964
Public Open Space Commuted Sums	1,830	1,771	1,712	1,653	1,594
Vehicles, Plant & Equipment	112	112	112	112	112
Local Plans	232	232	232	232	232
Building Control	0	0	0	0	0
Housing needs survey	12	0	13	0	8
Leisure Sites Repair and maintenance	162	162	162	162	162
Performance Reward Grant	126	69	0	0	0
Other	790	658	561	561	561
Total	10,525	8,572	7,173	7,190	7,748

General Reserve

This reserve is needed to deal with unplanned/unforeseen expenditure or losses in income. The level of General Reserves are kept under review as the council continues to introduce improvements to its performance monitoring and risk management systems.

In order to balance the budget in 2011/12 substantial efficiency/additional income targets (£1.819 million) were set. Similarly, realistic but challenging targets have been included for the coming year (£0.644 million) with further efficiencies required in future years. As any underachievement against target, together with any one-off transitional costs arising from reviews and service restructuring, would need to be funded by the Council it is essential to maintain reserves at appropriate levels.

As the External Auditor recently *acknowledged* “.....the general fund balance of just over £4 million at 31/3/11 provides some contingency against the increased risks of delivering against such challenging efficiency savings targets giving the Council time to respond to under delivery or new spending pressures.....”. This has particular relevance given the challenging economic climate and future uncertainty surrounding the Council's core grant funding as outlined explained throughout this report.

The difficult trading climate for our Building Control service, along with the majority of local authorities, also needs to be considered when viewing the retained General Fund balance. The downturn in fee income during the year has been reflected in the projected out-turn budget. The forecast deficit at the end of this financial year is £98,000 which in effect needs to be covered by the balance on the General Fund Reserve.

Earmarked Reserves

The council has established earmarked reserves to meet ‘known or predicted liabilities’ where the impact of the expenditure would otherwise cause a significant variation to the council's annual expenditure. The reserves are as set out in the table on the previous page.

Robustness of the Budget/Budget Sustainability

The Local Government Act 2003 requires the Chief Financial Officer (Chief Executive) to report upon the robustness of the estimates made for the purposes of the budget and council tax setting calculations. Spending plans ultimately impact on the level of council tax although, as explained below, the extent of any increase is also externally influenced by the provisions within the Localism Act (council tax referendum requirements). The Medium Term Financial Strategy assesses the affordability of revenue and capital plans and the adequacy of reserves. As with all plans the further the estimate is in the future there is a higher risk with regard to its accuracy. This is now additionally problematic as there is significant uncertainty as to level of core government grant funding and method of distribution that will replace the current revenue support grant mechanism from April 2013.

As explained in previous years' budget reports, the council's financial strategy is now aimed at addressing the longer term sustainability issues surrounding capital investment and the contributions that may be required to earmarked reserves. To address the longer term sustainability of the council's finances the council considers appropriate asset disposals coupled with the fact that additional funds have been included in the revenue budget in recent years to address longer term maintenance issues and significant non-cyclical expenditure.

As explained above, the Capital Programme is fully funded. Any additional schemes currently being prioritised by the My Neighbourhood Forums will be brought forward as and when funding is identified. (see Appendix H).

On current financial forecasts, given the substantial reductions in government grant and future revenue budget funding remains a cause for concern - especially given that funding levels beyond 2012/13 are uncertain - it therefore remains vitally important for the council to continue addressing the future years' forecast funding gap by developing plans to seek further efficiencies in service delivery. This acknowledges the lead time often required to deliver substantial changes to services. As previously referred to, however, the council has a good track record of delivering efficiencies and the programme of continuous efficiency reviews has an important part to play in this respect. Additionally the retention and appropriate use of revenue reserves will help sustain service standards and fund any one-off costs in the transition towards a balanced budget in the medium term.

At this stage, and subject to the ongoing scrutiny processes, the Chief Financial Officer's opinion is that the continuation estimates process has taken all practical steps to identify and make provision for the commitments to which the council will be exposed in 2011/12 and 2012/13. This process remains is a vital part of ensuring the robustness and financial integrity of the budget. It is important to continue to ensure that all decisions made regarding resource allocation are made with full knowledge of both current and future costs. Having assessed the significance and likelihood of the risks associated with the budget assumptions, the reserves detailed in this report are also considered adequate to support the delivery of the council's current Corporate Plan. The Chief Financial Officer will keep the position of balances and reserves under review during the budget process and provide further advice as appropriate.

Council Tax

The following table provides details of the Council Tax collected by the Borough Council, in its role as billing authority. The table also shows the component parts of the current year's council tax payable by the occupiers of a Band D property in the Borough together with the dates on which each of the precepting authorities are expected to agree their budgets and council tax for 2012/13.

Precepting Authority	2011/12 Band D Equivalent £	2012/13 Band D Equivalent £	Meeting Date
Lancashire Police Authority	146.27	149.93	8 th February 2012
Lancashire Combined Fire Authority	63.65	63.65	13 th February 2012
Lancashire County Council	1,108.30	1,108.30	16 th February 2012
South Ribble Borough Council	203.30	208.38	29 th February 2012
Total	1,521.52	1,530.26	Increase 0.57%

The above table takes account of the decision already taken by the Lancashire Police Authority to increase its share of the council tax by 2.5% and the proposals in this report for the Council to adopt a similar increase. Pending the formal decisions of Lancashire County Council and the Fire Authority it is assumed they will both be freezing their share of council tax for 2012/13.

Residents living in a property located within the boundaries of a Parish/Town Council will have to pay an additional amount of council tax (i.e. added to the amounts in the previous table) to pay for the services of the respective Parish/Town Council. The Parish/Town Councils have each agreed and confirmed their precepts. The table below compares each of the precepts notified for 2012/13 with that for the current year.

Parish/Town Council	2011/12		2012/13	
	£	Band D Equivalent £	£	Band D Equivalent £
Farington	50,000	22.53	50,000	22.63
Hutton	16,000	17.48	16,000	17.57
Longton	21,100	6.76	21,100	6.76
Penwortham	127,600	15.63	127,600	15.71
Much Hoole	9,000	12.23	9,000	12.19
Little Hoole	13,000	16.57	9,000	11.65
Samlesbury and Cuerdale	4,350	8.50	4,350	8.49
Total	241,050		237,050	

Council Tax - South Ribble Borough Council

The current Band D equivalent tax for the council, excluding parish/town council precepts is £203.30. Council tax increases in recent years have been held below inflation with no increase being applied in any of the last two years. Subject to Government rules regarding a council tax referendum (explained earlier in this report) the council has discretion over the level of Council Tax it needs to levy to deliver local services. However, Council Tax should not be levied unnecessarily and be justifiable in terms of the services it is being used to fund. With these caveats in mind, the Cabinet is required to determine the 2012/13 Band D equivalent Council Tax that will be recommended at the Council meeting scheduled for 29th February 2012.

The net expenditure of the Borough Council, excluding parish/town Council precepts and after contributions to/from reserves has to be met from funding from the National Non-Domestic Rate Pool and Revenue Support Grant, with the balance being met by Council Tax. The final amounts of NNDR and Revenue Support Grant for 2012/13 have been announced by the Government and are shown in the table below, along with the equivalent figures for the previous two years.

	2010/11 £ million	2011/12 £ million	2012/13 £ million
Business Rates	6.579	4.115	4.744
Revenue Support Grant	0.955	1.272	0.092
Total Formula Grant	*7.534	5.387	4.836
Council Tax Freeze Compensation Grant	0	0	0.189
Total Formula Grant excluding Council Tax Freeze Compensation Grant	*7.534	5.387	4.647

* includes funding for concessionary travel

The Borough Council's Council Tax base for 2012/13 has been determined as 37,305.48 Band D equivalent properties (2011/12 - 37,335.27). This includes 28.04 Band D equivalent properties arising from the decision to reduce the discount on second homes from 50% to the statutory minimum of 10%. The reduction in the tax base is indicative of changes that have occurred such as the Valuation Office rebanding houses for Council Tax purposes.

Current in-year collection rates for Council Tax do not currently appear to have been adversely affected by the recession. Therefore, in calculating the tax base applicable for 2012/13 the allowance for estimated losses on collection has been retained at the 2011/12 level of 0.75%. That said, every effort will continue to be made to maximise collection rates and minimise any amounts that may ultimately prove to be irrecoverable.

In determining the Council Tax level legislation also requires the Council to take into account any surplus or deficit on the Collection Fund. The requisite calculations have been finalised and there is a deficit on the collection fund. The Council's share of this deficit amounts to £39,316, equivalent to £1.05 (0.5%) on a Band D property. These adjustments will be taken into account in determining the Council's Band D equivalent tax for 2012/13.

Proposed Council Tax 2012/13

In determining the level of council tax for the coming year the Council must consider the impact on delivering against its corporate priorities linked with its medium term financial stability, as set out in the estimate forecasts appended to this report. These forecasts currently show recurring savings, in addition to that already delivered, of around £1.9 million (14.6% of the overall budget (net)) will be required over the three years 2013/14-15/16, an average of £633,000 each year. The budget forecasts for 2012/13 have been prepared based upon an assumed council tax increase of 2.5%. As outlined in this report, there is also currently significant uncertainty surrounding future government funding from 2013/14, which brings with it a number of risks and makes financial forecasting very difficult.

As mentioned earlier in this report, the Government has announced that a further Council Tax "Freeze" Grant is available but, unlike the 2011/12 allocation, this is currently only payable in 2012/13. The amount of one-off grant on offer is again equivalent to an increase in council tax of 2.5% or £189,000.

Were the Council to decide to freeze the council tax and accept the grant on offer there would be no impact on the budget forecasts for 2012/13. However, in terms of future years, there would be an additional shortfall in council tax income which would increase the forecast budget gap in each of the years by £189,000. This would then need to be added to the savings targets referred to above or factored into future council tax increases, subject to the limitations of the Referendum requirement set out in the Localism Act.

The Council has already committed to put an extra £35,000 into Neighbourhood services (street sweeping etc) and is proposing to invest £27,500 p.a. into core funding for priorities determined by local communities (My Neighbourhoods). In addition the collection fund deficit of £39,316 must be funded. All of these total £101,816 the equivalent to a Band D council tax of £2.73 (an increase of 1.34%).

Taking all of the above into consideration it is proposed that our element of Council Tax in 2012/13 is increased to £208.38 (2.5%). In doing so the Council will not qualify to receive the one-off government Council Tax Freeze Grant for 2012/13 of approximately £190,000.

Council Tax Increase - Limitations

The Localism Act has introduced the power for the Secretary of State to set principles each year under which council tax increases are determined as excessive. This can apply to South Ribble Borough Council, Lancashire County Council, Fire, Police or Towns and Parishes (this will not apply to Town and Parishes next year). In all such cases, South Ribble Borough Council has to make arrangements to hold a local referendum for residents. Costs can be recovered from the relevant precepting authority. For 2012/13 the limits have been set at 3.5% for principal authorities such as South Ribble Borough Council and 4% for Police and Fire. No equivalent limits have been set for Town and Parish Councils for 2012-13, although they may in future years.

Appendices attached to this report

Appendix	Title	Description
A	Budget projections	Latest projected outturn for the current year and future years' estimates.
B	Portfolio Revenue Summary Projections	Detail of Revenue budget projections by Activity for each portfolio.
C	Variance Analysis	Explanation of major variances 2011/12
D	Efficiency/Income Proposals 2011/12	Monitoring statement showing forecast position against the targets set for the current year
E	Efficiency/Income Proposals 2012/13	Cost Reduction / Income Generation Proposals
F	Capital Programme & Financing	Summary of the projected expenditure and revised phasing of capital projects already committed in the council's capital programme.
G	Revenue Budget – Key Assumptions	Key assumptions used in compiling the revenue budget forecasts.
H	My Neighbourhood Forums	Schedule showing the proposed priority capital schemes for investment
I	Local Government Finance Settlement	Revenue Spending Power Year-on-Year Comparisons
J	Local Government Finance Settlement	Formula Grant Year-on-Year Comparisons
K	Key Risks to the Medium Term Financial Strategy	Potential risks to the medium term financial strategy and the mitigating action(s)
L	Glossary of Terms	Glossary of the Financial and Budgetary Terms used in the report

WIDER IMPLICATIONS

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas shown below. A risk assessment has also been carried out. The table shows the implications in respect of each of these.

FINANCIAL	The financial implications relating to this report are set out in the body of this report.
LEGAL	These are contained within the revenue and capital budgets.
RISK	There are no implications resulting directly from this report.
OTHER (see below)	<p>The budget proposals, if agreed, will result in a reduction in employee costs, which will be addressed in accordance with the Council's suite of human resource policies. As has been demonstrated in delivering this year's efficiency target, the need for any compulsory redundancies will be kept to a minimum and treated as a last resort. Close liaison with the Trade Unions and employees has been and will continue to be on-going.</p> <p>There are no legal implications at this stage.</p> <p>As explained in the report the Council has an excellent track record of delivering efficiencies to balance the budget exceeding Government targets. Progress against the current year's target of £1.819 million is progressing well with £1.461m in efficiencies/budget savings expected to have been delivered by the end of the financial year (Appendix D). A further target of £0.644 million (Appendix E) has been included in the budget proposals for 2012/13 and £0.378 million of this has already been delivered this year, more than offsetting the expected shortfall against the current year's original target.</p> <p>An equality impact assessment has been carried out on the budget proposals contained in this report for 2012/13, taking into account the requirements of the Equality Act 2010, and the specific public sector provisions which come into being from 1 April 2011.</p>

<i>Asset Management</i>	<i>Corporate Plans and Policies</i>	<i>Efficiency Savings</i>	<i>Equality, Diversity and Community Cohesion</i>
<i>Freedom of Information/ Data Protection</i>	<i>Health and Safety</i>	<i>Human Rights Act 1998</i>	<i>Implementing Electronic Government</i>
<i>Respect Agenda</i>	<i>Staffing</i>	<i>Sustainability</i>	<i>Training and Development</i>

BACKGROUND DOCUMENTS

- Local Authority Finance (England) Revenue Support Grant for 2010/11 & Related Matters – DCLG – 25 January 2010
- Local Government Finance Settlement 2011/12 (2011-12 Settlement and Provisional 2012-13 Settlement) – 31 January 2011
- Treasury Strategies and Prudential Indicators 2012/13 to 2014/15 – Cabinet 21 February 2012

Appendix A

REVENUE ESTIMATES 2011/12 TO 2015/16						
GENERAL FUND SUMMARY						
	Original Estimate 2011/12 £000	Projected Outturn 2011/12 £000	Original Estimate 2012/13 £000	Forecast Original Estimate 2013/14 £000	Forecast Original Estimate 2014/15 £000	Forecast Original Estimate 2015/16 £000
Portfolio						
Finance & Resources	26	287	82	236	269	289
Shared Services & Corporate Support	3,364	3,275	3,203	3,385	3,413	3,524
Neighbourhoods & Street Scene Regeneration, Leisure & Healthy Communities	5,895	5,503	5,402	5,527	5,743	5,850
	3,123	3,347	3,156	3,175	3,262	3,277
Strategic Planning & Housing	1,701	1,775	1,723	1,678	1,752	1,746
Grand Total	14,109	14,187	13,566	14,001	14,439	14,686
External interest	(270)	(313)	(266)	(234)	(234)	(234)
Provision for Repayment of Debt	610	670	714	855	982	1,042
Government Grants Deferred	228	0	0	0	0	0
Interest Payable	160	133	126	120	120	120
Capital Expenditure Charged to General Fund	0	50	0	0	0	0
Depreciation	(1,394)	(1,396)	(1,396)	(1,396)	(1,396)	(1,396)
Cont'n (from)/to Reserves/ Provisions	152	304	569	419	558	690
Cont'n (from)/to General Fund Balances	(430)	(305)	(417)	(67)	0	0
BOROUGH COUNCIL BUDGET REQUIREMENT	13,165	13,330	12,894	13,686	14,457	14,896
Parish/Town Council Precepts	241	241	237	237	237	237
TOTAL BUDGET REQUIREMENT	13,406	13,571	13,133	13,935	14,706	15,145
Funded By						
New Homes Bonus	0	165	326	326	326	326
Council Tax freeze grant	189	189	189	189	189	0
Revenue Support Grant	5,387	5,387	4,647	4,647	4,647	4,647
Parish/Town Council Precepts	241	241	237	237	237	237
Actual/Projected Borough Council Tax Income	7,589	7,589	7,734	7,851	7,969	8,089
TOTAL FUNDING	13,406	13,571	13,133	13,250	13,368	13,299
Forecast Budget deficit	0	0	0	685	1,338	1,846

**PROJECTED OUT-TURN 2011/12
SUMMARY OF KEY VARIANCES TO ORIGINAL ESTIMATE**

Details	(Under)/over spend £000's
Expenditure	
Employee Costs net saving (after efficiencies)	75
Premises	61
Supplies and services savings	(21)
Waste Partnership	(51)
Housing / Council Tax Benefit (net) Over-recovery	(180)
Corporate Plan additional items	35
Reduced capital financing costs	(120)
Income	
New Homes Bonus	(165)
Land Charges income increase	(40)
Investment Interest	(43)
Investment properties reduction in rental income	65
Taxi licensing income reduction	18
Forecast Progress against 2011/12 Efficiency Targets	358
Further recurring efficiencies identified	(377)
Transfers to/from reserves	215
Other net movements	45
Projected outturn variation (underspending)	(125)

CAPITAL EXPENDITURE FORECASTS - SUMMARY					
Portfolio	Proj. Outturn 11/12	Est 12/13	Est 13/14	Est 14/15	Est 15/16
	£	£	£	£	£
SHARED SERVICES & CORPORATE SUPPORT	240,314	423,274	1,211,000	140,000	0
FINANCE & RESOURCES	745,531	1,696,676	540,400	400,648	132,000
REGENERATION, LEISURE & HEALTHY COMMUNITIES	185,912	42,500	42,500	20,000	0
NEIGHBOURHOODS & STREETSCENE	555,699	1,188,500	763,000	430,500	28,500
STRATEGIC PLANNING & HOUSING	489,499	554,000	201,000	201,000	201,000
PERFORMANCE REWARD GRANT	111,813	77,122	0	0	0
TOTAL	2,328,768	3,982,072	2,757,900	1,192,148	361,500

REVENUE BUDGET – KEY ASSUMPTIONS

	2011/12	2012/13	2013/14	2014/15	2015/16
Revenue Support Grant	As advised by the Government	As advised by the Government	No change from 2012/13 level	No change from 2012/13 level	No change from 2012/13 level
Nationally agreed employee pay award	0%	0%	1%	2.5% (working assumption)	0% (working assumption)
Employer's Pension Contribution rates	19.3%	20.3%	21.3%	22.3% (working assumption pending the results of the triennial valuation)	23.3% (working assumption pending the results of the triennial valuation)
Employer's National Insurance Increase	Based on current rates	Based on current rates	Based on current rates	Based on current rates	Based on current rates
Investment returns (average)	1.1%	1.1%	1.1%	1.1%	1.1%
Council tax base	0.3% Growth 0.75% Losses on collection	0.3% Growth (unparished areas only) 0.75% Losses on collection	As at 2012/13	As at 2012/13	As at 2012/13
Key Income estimates		No growth from current levels in anticipation of a recovery of the economy	No growth from current levels in anticipation of a recovery of the economy	No growth from current levels in anticipation of a recovery of the economy	No growth from current levels in anticipation of a recovery of the economy
Efficiencies	Appendix D	Appendix E	Appendix E	Appendix E	Appendix E

MyNeighbourhood Forums – Proposed Capital Projects

The following table shows the nominal capital allocations recommended by the five MyNeighbourhood forums for inclusion in the capital programme. Each line represents a local priority and can be seen in the relevant MyNeighbourhood plan. The amounts below are the Council's proposed contributions required to allow financial planning. Total project cost may be higher as it may include additional third party contributions, however the Council's contributions are fixed to these sums for the period 2012/13. The capital projects below will be subject to the Council's procedures for approval. The sums in the table below are recommendations for the Capital Programme and will still be subjected to formal project appraisal, financial and legal evaluation as project details are finalised.

MyNeighbourhood Plan	Project	Description	Recommended allocation (Council Contribution) £000
Central	Hope Gardens	Environmental improvement project to turn waste ground into new nature park / play area	25
Central	Local market	Support local businesses & setting up local markets, e.g. Farmers Markets	5
Central	Mill Street Regeneration	Working with the Parish Council to improve and regenerate the piece of open space at the top of Mill Street, Farington	10
CENTRAL TOTAL			40
Eastern	Gregson lane community centre	Improvement scheme to provide sports & community facilities at Gregson Lane	30
Eastern	Higher Walton regeneration	Higher Walton Regeneration – village improvement scheme	40
Eastern	Withy Grove Park	Assist improvements Withy Grove Park	10
EASTERN TOTAL			80
Western Parishes	Garden of Remembrance	Enhancements to Garden of Remembrance at New Longton All Saints Church	5
Western Parishes	Much Hoole village hall	Support the development at the new village hall for Much Hoole	10
Western Parishes	Village improvements	Work with Parish Councils and residents to deliver a range of village improvements	30
Western Parishes	Longton Village improvements	Improve retail offer and associated parking facilities in Longton	50
WESTERN PARISHES TOTAL			95

MyNeighbourhood Plan	Project	Description	Recommended allocation (Council Contribution) £000
Penwortham	Community Food Growing	Food growing projects including Pumpkin Patch & community orchard	6
Penwortham	Hurst Grange Park	Environmental improvements including new safety lighting for footpath/cycleway	8
Penwortham	Historical trail & community information	Support preservation & promotion of sites of historical interest in Penwortham, including St Mary's Well & Greenbank Road	6
Penwortham	Blashaw Wood paths	Footpaths opened up across Blashaw Wood to improve local environment & public amenity	10
Penwortham	Ribble Gateway	Work with United Utilities to develop a community amenity along the Ribble	8
PENWORTHAM TOTAL			38
Leyland	Leyland Regeneration	Wide range of projects to regenerate Leyland town centre	50
Leyland	Sports Pavilion Moss Side	Development of sports pavilion/community resource at Moss Side	20
Leyland	Leyland 'village' improvements	Improvements & tidy ups in areas such as Seven Stars, Moss Side, Earnshaw Br & Broadfield	10
Leyland	Measures on Moss Lane	Reduction of nuisance / access issues around Moss Lane	5
LEYLAND TOTAL			85

**Local Government Finance Settlement
Revenue Spending Power Year-on-Year Comparisons**

Local Authority	Revenue Spending Power' 2010-11	Estimated 2011-12 Revenue Spending Power including NHS support for social care	Change in estimated 'revenue spending power' 2011-12		Transition Grant	Effect after transition funding	
	£m	£m	£m	(%)	£m	£m	(%)
Lancashire County Council	891.070	863.753	-27.317	-3.1%	0.000	-27.317	-3.1%
Burnley	23.098	17.087	-6.010	-26.0%	3.978	-2.033	-8.8%
Chorley	14.952	13.970	-0.982	-6.6%	0.000	-0.982	-6.6%
Fylde	11.224	10.585	-0.639	-5.7%	0.000	-0.639	-5.7%
Hyndburn	18.801	14.436	-4.365	-23.2%	2.710	-1.654	-8.8%
Lancaster	24.714	22.837	-1.877	-7.6%	0.000	-1.877	-7.6%
Pendle	21.080	16.394	-4.686	-22.2%	2.831	-1.855	-8.8%
Preston	28.552	23.764	-4.788	-16.8%	2.275	-2.513	-8.8%
Ribble Valley	7.192	6.754	-0.438	-6.1%	0.000	-0.438	-6.1%
Rossendale	12.318	11.011	-1.307	-10.6%	0.223	-1.084	-8.8%
South Ribble	14.684	13.837	-0.847	-5.8%	0.000	-0.847	-5.8%
West Lancashire	16.457	15.351	-1.106	-6.7%	0.000	-1.106	-6.7%
Wyre	16.937	15.868	-1.069	-6.3%	0.000	-1.069	-6.3%
Blackburn with Darwen	171.258	153.220	-18.039	-10.5%	2.968	-15.071	-8.8%
Blackpool	178.598	165.513	-13.085	-7.3%	0.000	-13.085	-7.3%

Local Authority	Revenue Spending Power' 2011-12	Estimated 2012-13 Revenue Spending Power including NHS support for social care	Change in estimated 'revenue spending power' 2012-13		Transition Grant	Effect after transition funding	
	£m	£m	£m	(%)	£m	£m	(%)
Lancashire County Council	861.426	837.455	-23.971	-2.78%	0.000	23.971	-2.78%
Burnley	19.973	14.978	-4.995	-25.01%	3.237	-1.758	-8.80%
Chorley	13.253	12.435	-0.817	-6.17%	0.000	-0.817	-6.17%
Fylde	10.098	9.527	-0.571	-5.66%	0.000	-0.571	-5.66%
Hyndburn	16.230	12.639	-3.591	-22.13%	2.163	-1.428	-8.80%
Lancaster	21.721	20.257	-1.464	-6.74%	0.000	-1.464	-6.74%
Pendle	18.211	14.392	-3.819	-20.97%	2.216	-1.603	-8.80%
Preston	24.785	21.259	-3.526	-14.23%	1.345	-2.181	-8.80%
Ribble Valley	6.489	6.097	-0.392	-6.04%	0.000	-0.392	-6.04%
Rossendale	10.598	9.759	-0.839	-7.92%	0.000	-0.839	-7.92%
South Ribble	13.137	12.438	-0.699	-5.32%	0.000	-0.699	-5.32%
West Lancashire	14.507	13.609	-0.899	-6.19%	0.000	-0.899	-6.19%
Wyre	14.902	13.972	-0.930	-6.24%	0.000	-0.930	-6.24%
Blackburn with Darwen	154.215	145.394	-8.821	-5.72%	0.000	-8.821	-5.72%
Blackpool	163.201	158.280	-4.921	-3.02%	0.000	-4.921	-3.02%

Appendix J

Local Government Finance Settlement – Formula Grant Year-on-Year Comparisons

Local Authority	2010-11 Adjusted Formula Grant	2011-12 Formula Grant Before Floor Damping	Formula Grant change (before damping)		2011-12 Formula Grant After Floor Damping	Formula Grant change (after damping)		Impact of Damping
	(£m)	(£m)	(£m)	(%)	(£m)	(£m)	(%)	(£m)
Lancashire	380.028	344.148	-35.880	-9.44%	333.683	-46.345	-12.20%	-10.465
Burnley	10.501	8.619	-1.882	-17.92%	9.115	-1.386	-13.20%	0.496
Chorley	7.857	6.081	-1.775	-22.60%	6.741	-1.116	-14.20%	0.660
Fylde	5.141	4.242	-0.899	-17.48%	4.359	-0.781	-15.20%	0.117
Hyndburn	9.096	7.150	-1.946	-21.40%	7.895	-1.201	-13.20%	0.746
Lancaster	15.124	11.459	-3.665	-24.23%	13.128	-1.996	-13.20%	1.669
Pendle	10.203	8.180	-2.023	-19.83%	8.856	-1.347	-13.20%	0.677
Preston	13.632	12.209	-1.423	-10.44%	11.698	-1.934	-14.19%	-0.511
Ribble Valley	3.773	3.080	-0.693	-18.37%	3.237	-0.536	-14.20%	0.157
Rossendale	5.535	4.442	-1.093	-19.75%	4.694	-0.841	-15.20%	0.252
South Ribble	6.428	5.502	-0.926	-14.41%	5.387	-1.041	-16.19%	-0.115
West Lancashire	8.632	6.732	-1.900	-22.01%	7.407	-1.226	-14.20%	0.674
Wyre	8.936	7.377	-1.559	-17.45%	7.667	-1.269	-14.20%	0.290
Blackburn with Darwen	92.386	84.057	-8.328	-9.01%	82.551	-9.835	-10.65%	-1.507
Blackpool	94.990	94.167	-0.823	-0.87%	86.416	-8.574	-9.03%	-7.751

Local Authority	2011-12 Adjusted Formula Grant	2012-13 Formula Grant Before Floor Damping	Formula Grant change (before damping)		2012-13 Formula Grant After Floor Damping (excl. CT Freezing)	Formula Grant change (after damping)		Impact of Damping
	(£m)	(£m)	(£m)	(%)	(£m)	(£m)	(%)	(£m)
Lancashire	331.356	321.560	-9.796	-2.96%	306.312	-25.044	-7.56%	-15.248
Burnley	9.079	7.696	-1.383	-15.24%	8.062	-1.017	-11.20%	0.366
Chorley	6.701	5.361	-1.340	-19.99%	5.883	-0.817	-12.20%	0.522
Fylde	4.328	3.668	-0.660	-15.25%	3.756	-0.571	-13.20%	0.089
Hyndburn	7.863	6.383	-1.480	-18.82%	6.982	-0.881	-11.20%	0.600
Lancaster	13.074	10.226	-2.848	-21.78%	11.609	-1.464	-11.20%	1.384
Pendle	8.821	7.314	-1.507	-17.08%	7.833	-0.988	-11.20%	0.519
Preston	11.645	10.907	-0.739	-6.34%	10.394	-1.251	-10.74%	-0.512
Ribble Valley	3.215	2.695	-0.520	-16.17%	2.823	-0.392	-12.20%	0.128
Rossendale	4.667	3.927	-0.740	-15.86%	4.051	-0.616	-13.20%	0.124
South Ribble	5.346	4.828	-0.518	-9.69%	4.647	-0.699	-13.08%	-0.181
West Lancashire	7.365	5.933	-1.431	-19.44%	6.466	-0.899	-12.20%	0.533
Wyre	7.624	6.520	-1.104	-14.48%	6.694	-0.930	-12.20%	0.174
Blackburn with Darwen	82.139	75.883	-6.256	-7.62%	76.061	-6.078	-7.40%	0.178
Blackpool	86.059	86.498	0.439	0.51%	80.997	-5.062	-5.88%	-5.501

Key Risks to the Medium Term Financial Strategy

Risk Area Identified	Potential Impact of Risk	Mitigation
Pay Inflation	Budget provision insufficient to cover actual pay settlements for years 2012/13 and beyond	<ul style="list-style-type: none"> Maintain an adequate level of General Reserve
Pension increases	Budget provision insufficient to cover the costs of implementing the results of the next triennial review wef from 2014/15	<ul style="list-style-type: none"> Maintain an adequate level of General Reserve Ensure any decisions regarding early retirement/ill health retirement are in accordance with the Council's policies.
Planning fees income	Significant income budget which is demand led and significant fluctuations could lead to a shortfall in funding.	<ul style="list-style-type: none"> The income estimate has been rigorously challenged during the budget process Maintain an adequate level of General Reserve
Land Charges – Search fee income	<ul style="list-style-type: none"> Significant income budget which is demand led and significant fluctuations could lead to a shortfall in funding. 	<ul style="list-style-type: none"> The income estimate has been rigorously challenged during the budget process Maintain an adequate level of General Reserve
Revenue Support Grant	<ul style="list-style-type: none"> Shortfall in actual grant funding compared with budget provision made for years 2013/14 and beyond. Impact of Formula Grant funding review 	<ul style="list-style-type: none"> Increases of NIL assumed for 2013/14 and beyond Adequate level of General Reserve Deliver planned efficiencies
New Homes Bonus (NHB)	<ul style="list-style-type: none"> Shortfall in actual grant funding compared with budget provision. 	<ul style="list-style-type: none"> A cautious approach has been taken in anticipating additional funding from this source beyond 2012/13 given the expected changes to Revenue Support Grant wef April 2013 (see item immediately above).
Government council tax capping	<ul style="list-style-type: none"> Government consider that budget decisions taken by the Council should be subject to capping resulting in the costs of rebilling etc Council Tax referendum required 	<ul style="list-style-type: none"> Council considers Government guidance when setting its budget and council tax. The Council Tax increase being proposed for 2012/13 is below the level which would require a referendum to be held in 2012/13.
Efficiency targets	Failure to deliver efficiency targets leading to a funding shortfall	<ul style="list-style-type: none"> Ensure that targets are realistic and deliverable within the timescales envisaged Allocate ownership and develop an action plan(s) for delivering the efficiencies and monitor delivery Maintain an adequate level of General Reserve
Interest Rates	Interest rate forecasts vary from the assumptions made in the financial forecasts resulting in a shortfall in investment interest and/or additional borrowing costs.	<ul style="list-style-type: none"> Professional and specialist advice taken on interest rate forecasts Cash flow modelled against anticipated financial forecasts and expenditure/income profiles Treasury Management Strategy and Policies kept under review.

Risk Area Identified	Potential Impact of Risk	Mitigation
Financial Market Failure	Loss of investments and interest	<ul style="list-style-type: none"> • Professional and specialist advice taken to support decisions • Treasury Management Strategy and Policies kept under review
Recovery of Icelandic banking deposits differs from previous assumptions.	Should the recovery of the deposits in Heritable and Landsbanki prove to be lower than forecast there will be a requirement for an additional impairment charge.	<ul style="list-style-type: none"> • Maintain adequate reserves • Monitor recovery of deposits • Specialist Legal support secured via the LGA to maximise recovery through the courts
Capital programme	Funding shortfall due to overspending, unforeseen circumstances etc	<ul style="list-style-type: none"> • Capital programme fully funded • More detailed estimates/appraisal required before schemes are approved/ progressed • Earmarked revenue and capital reserves maintained to at an adequate level

All the above risks will also be mitigated by rigorous and regular monitoring of the Council's financial position throughout the course of the year so that appropriate corrective can be taken as appropriate. The Governance Committee has a key role to play in this respect.

Glossary of Terms

Revenue Support Grant - Distribution System

Relative Needs Formula

To work out each council's share of Formula Grant the Government first calculates the **Relative Needs Formula** (RNFs). The RNF's are mathematical formulae that include information on the population, social structure and other characteristics of each authority.

Relative Needs Formulae are designed to reflect the relative needs of individual authorities in providing services. They are not intended to measure the actual amount needed by any authority to provide local services, but to simply recognise the various factors which affect local authorities' costs locally. They do not relate to the actual monetary amount of grant that a council needs for providing services for its residents. The amount of grant a council will receive from Government depends also on the results of the other three blocks detailed below.

The formula for each specific service area is built on a basic amount per client, plus additional top ups to reflect local circumstances. The top ups take account of a number of local factors which affect service costs, but the biggest factors are deprivation and area costs.

Relative Resource Amount

The Relative Resource Amount is a negative figure. It takes account of the fact that areas that can raise more income locally require less support from Government to provide services. The negative Relative Resource Amount is balanced against the positive proportion calculated for each authority by the Relative Needs Amount.

This block recognises the differences in the amount of local income which individual councils have the potential to raise. This is done by looking at authorities' council tax base data (a measure of the number of properties equivalent to Band D for council tax in an area). The greater an authority's tax base the more income it can raise from a standard increase in band D council tax.

Negative Relative Resource Amounts are then generated using the amounts above the minimum council tax base per head. Again, to do this fairly, the Relative Resource Amount is applied to four separate groups of authorities depending on the services they provide. The four groups of authorities are: upper tier services, lower tier services, fire authorities and police authorities.

Central Allocation

Once account has been taken of the Relative Needs and Relative Resources of local authorities, there is still an amount of money left in the overall grant pot for distribution to local authorities.

The Government shares this out on a per head basis; the per head amounts are based on the appropriate minimums for each authority already calculated for the needs and resources blocks.

Floor Damping Block

Following the calculations in the three blocks described above, each authority will have a grant amount allocated to it. However, the Government has acted to mitigate the grant reductions by changing the way that the grant is calculated: paying more attention to the levels of need in the area, and distributing less money per person. In the past, Government has set a single 'floor' to limit the effects of changes from year to year. This is also called '**damping**'. Instead of just a single floor, this year councils have been grouped into four bands with four different floors. These bands are based on the percentage of the budget that the authority receives from central government formula grant. By setting different floors for authorities in different circumstances, Government

Glossary of Terms

has capped the reductions in grant for more needy authorities at a lower level than more self-sufficient areas. Again, this insulates the most dependent places from the sharper grant reductions they would otherwise have had. Government considers this to be a fairer and more progressive system than in the past.

Billing authorities

These are the authorities that collect Council Tax - district councils, London boroughs, and unitary authorities.

Budget requirement

This is the amount each authority estimates as its planned spending, after deducting any funding from reserves and any income it expects to raise (other than from the Council Tax and general funding from the Government i.e. Formula Grant and sometimes in the past, certain special grants). The budget requirement is set before the beginning of the financial year.

Business rates

These rates, called National Non-Domestic Rates, are the means by which local businesses contribute to the cost of providing local authority services. Business rates are paid into a central pool. The pool is then divided between all authorities.

Capping

When the Government limits an authority's budget requirement, and hence the council tax it sets.

Council Tax

A local tax on domestic property set by local authorities in order to meet their budget requirement.

Council Tax base

The Council Tax base of an area is equal to the number of band D equivalent properties. To work this out, the Government counts the number of properties in each band and works out an equivalent number of band D properties. For example, one band H property is equivalent to two band D properties, because it pays twice as much tax. The amount of revenue which could be raised by Council Tax in an area is calculated allowing for discounts and exemptions but, for the purpose of the Formula Grant calculation, assuming that everyone pays.

Glossary of Terms

Council Tax bands

There are eight Council Tax bands. How much Council Tax each household pays depends on the value of the homes. The bands are set out below:

Council Tax Band	Property Value
Band A	Up to & including £40,000
Band B	£40,001 to £52,000
Band C	£52,001 to £68,000
Band D	£68,001 to £88,000
Band E	£88,001 to £120,000
Band F	£120,001 to £160,000
Band G	£160,001 to £320,000
Band H	More than £320,000

Damping

‘Damping’ is used to describe the way limits are applied to the effect on grant funding of changes to the distribution formulae or data used. Minimum increases, floors, on Formula Grant changes from one year to the next are now the damping mechanism.

Floor damping

A method by which stability in funding is protected through limiting the effect of wide variations in grant increase. A floor guarantees a fixed level of increase in grant. The grant increases of authorities who receive more than the floor are scaled back by a fixed proportion to help pay for the floor.

Formula Grant

Comprises Revenue Support Grant and redistributed business rates.

The Local Government Finance Settlement

The Local Government Finance Settlement is the annual determination of formula grant distribution as made by the Government and debated by Parliament. It includes:

- the totals of formula grant;
- how that grant will be distributed between local authorities; and
- the support given to certain other local government bodies.

Net Revenue Expenditure (NRE)

This represents an authority’s budget requirement and use of reserves.

Non-Domestic Rates

See business rates.

Precept

This is the amount of Council Tax income county councils, police authorities, parish councils and fire authorities need to provide their services. The amounts for all local authorities providing services in an area appear on one Council Tax bill, which comes from the billing authority.

Precepting authority

This is an authority which sets a precept to be collected by billing authorities through the Council Tax bill. County councils, police authorities, fire authorities and parish councils are all precepting authorities.

Glossary of Terms

Reserves

This is a council's accumulated surplus income (in excess of expenditure) which can be used to finance future spending.

Revenue Expenditure

Expenditure financed by Government grants, council tax and use of reserves.

Revenue Support Grant (RSG)

A Government grant which can be used to finance revenue expenditure on any service.

Ring-fenced grant

A grant paid to local authorities which has conditions attached to it, which restrict the purposes for which it may be spent.

Specific Grants

Grants paid under various specific powers, but excluding formula grant or area based grant. Some specific grants are ring-fenced.