APPENDIX 1

Medium Term Service and Resource Planning 2010/11 – 2012/13

1. Background and Process

In February 2008 Council approved a new Corporate Plan, Medium Term Financial Strategy and Capital strategy which taken together set the overall framework for resource allocation.

In setting the Budget for 2010/11 it was further work has been undertaken to ensure it reflects:

- the final year of the 3 year grant settlement
- actual and anticipated spending pressures, and
- Corporate Plan priorities.

This work is reflected in the suite of 5 Medium Term Service and Resource plans. These plans provide an important link between the Corporate Plan and annual Service Action Plans. They are strategic documents that identify key changes and enable prioritisation. They are crucial in enabling services to anticipate challenges and plan how to deal with these in advance thereby enabling consideration of a wider range of options than would be available over a shorter term planning horizon.

The medium term service and resource plans are developed to meet corporate and service objectives, identifying how budgets will be balanced over each of the next 3 years, but with regard also being given to longer term.

The first draft of these plans was presented to the Overview and Scrutiny Panels during November 2009, and are available for background information. These plans form the basis of the Budget proposal for 2010/11 as set out in Appendix 2 but they will need to be updated and finalised to take account of the allocation of additional resources from corporate 'headroom', 'one-off' funding and other adjustments in the proposed Budget.

The plans are further detailed in a series of Service Action Plans, which were presented in draft form to the Overview and Scrutiny Panels in January 2010. Again, these Service Action Plans will need to be updated in line with the final Budget agreed. It is proposed that the final documents be updated and published before the end of March 2010.

The process has been linked to and run in parallel with the review and updating of the Corporate Plan which.

2. Corporate Funding Assumptions

Government Grant

2010/2011 is the final year covered by the Comprehensive Spending Review 2007 (CSR07). The government grant settlement figures have been maintained in line with the CSR07 and has helped provide some financial planning certainty over the last 3 years.

The level of government grant continues to be low relative to others – the 5th lowest of the 39 unitary authorities when expressed on a per capita basis.

Bath & NE Somerset Council - Revenue Support Grant

	2008/09 £m	2009/10 £m	**2010/11 £m**
Revenue Support Grant (RSG)	4.705	39.993	**41.559**
Redistributed NNDR	33.796		
Total Grant	38.501	39.993	**41.559**
%age change	4.7%	3.9%	**3.9%**
Grant lost to damping	2.027	2.327	**2.494**

As part of CSR07, the government expected local authorities to achieve 3% cashable efficiency savings each year, and to the extent that these were achievable these resources could be released for re-allocation, in addition to the percentages set out above.

There are no figures available for the years from 2011/12, but in light of the significant deterioration in the national public finances, it must be assumed that the position from 2011/12 onwards will be extremely challenging.

An assumption of a grant increase of 1% underlies the medium term service and resource plans from 2011/2012 and this has been revised to 0% as part of the current process. Indications in the Pre-Budget Report are that Schools and Health will be relatively protected Going forwards which means that the rest of the public sector could be facing actual cash reductions in future grant funding. It will therefore be necessary to keep this assumption under review.

This Council grant entitlement, as identified by the Governments relative need formula, continues to be reduced as a result of the damping rules affecting grant increases. The impact of these rules for the Council, although once regarded as transitional, is not diminishing. This has resulted in £2 million of grant being withheld in 2008/09, increasing to £2.3m in 2009/10 and £2.5m in 2010/11.

Council Tax

Over the past two years the Council has set a reducing increase in the level of council tax - 3.95% for 2008/09 and 3.5% for 2009/2010.

As part of The 2010 /2011 budget planning process it was necessary to agree an assumption on the level of Council Tax - this was indicatively set at 2.5%. The Secretary of State has again written to local authorities as follows:

> *"The Government expects to see the average council tax increase – which this year (2009/2010) was 3.0% - fall to a 16 year low next year (2010/11)".*

Each 1% variation in the council tax rate represents approximately £750k to the Council's funding, and the effect is cumulative.

In addition there is currently a surplus on the Council Tax Collection Fund, of which the Council's share is 85%. The 2010/2011 budget assumes an £846k surplus which it allocates as funding for 'one-off' priorities.

The council tax base of 63,882.43 for 2010/11 was formally agreed by the s151 officer on 31st December 2009.

The Cabinet's recommended level of Council Tax for 20010/11 is as set out in Appendix 2 Section 5 and in the main report resolutions. Figures for future years have been revised to be consistent with that.

C: Corporate Resource Allocation Assumptions

The initial resource allocation set for service areas following CSR07 aimed to reflect the likely level of external funding and to give a basis for considering the options for and implications of budgets which will be capable of being balanced over the 3 years 2008/2009 to 2010/2011.

These were only initial resource allocation parameters and the draft cash limits for 2010/2011 built on the actual base position for 2009/2010, including any prioritisation that have previously been allocated to specific service areas.

The final resource allocation proposed in the Budget for 2010/2011 reflects a range of considerations from the Cabinet, including available resource, corporate priorities, benchmarking, consultation feedback and service impacts.

When the Budget is agreed the draft Medium Term Service and Resource Plans and the draft Service Action Plans will need to be adjusted in line with the decisions taken, and it is proposed that this is completed by the end of March 2010 and the final documents then be published.

D: Other Corporate Assumptions

Reserves

Section 4 of Appendix 2 sets out the current position in respect of the Council's Reserves in light of the estimated out-turn for 2009/10, the settlement of the SPA Claim and the current economic climate. Appendix 2 Annex 2 sets out the Section 151 Officer's Opinion on the Adequacy of Balances and the Robustness of the Budget.

The impact of the above is a significant degree of flexibility in the availability of non-earmarked reserves above the target level set out by the Section 151 Officer. The Budget for 2010/2011 provides for the prudent use of un-earmarked reserves to meet corporate priorities and support the work of the Council to meet the future financial challenge.

Pensions

The last actuarial review dated 31 March 2007, required an increase in employer's contribution from 16.4% to 17.5% at a cost of £654k, This was implemented from 1 April 2008 in full.

Since the last actuarial review, world market conditions mean that investment performance has been less than expected. The next comprehensive triennial valuation is due at 31 March 2010 with any changes required to be implemented from 2011/2012.

Any increase in employer contribution rates is permitted to be phased in over the 3 years 2011/12 – 2013/14 or they can be implemented in full in April 2011.

An accurate estimate of the impact cannot be made at this stage but it is clear that a significant increase will be required. The Council has prudently begun setting aside funding as part of the 2009/10 budget to mitigate the future impact and ensure it will be manageable and the Budget proposal in Appendix 2 maintains the additional contribution of £1m per annum in each financial year from 2009/10. Pensions costs are a real cost of staff now and need to be considered in terms of service costs and related prioritisation of Council resources.

Pay Awards & Employers' NI

The cost of pay awards was originally assumed to be 2% for the 2010/2011 budget planning purposes, and while we do not yet have a settlement for 2010/2011 the Government has announced a cap on public sector pay settlements in 2011/12 and 2012/13 at 1%.

Based on this information the pay award assumption for 2010/2011 was amended to 1% which contributes around £750K to available headroom (see Appendix 2 section 1).

In the November 2008 Pre-Budget Report, the Chancellor announced an increase in Employers' National Insurance Contributions of 0.5% from 2011/12 (together with a 0.5% increase for the employee). The estimated total cost of this is £320k, excluding schools. This was further updated in the November 2009 Pre-Budget Report to a 1% increase from 2011/12. This amendment will need to be addressed in the future budget planning process.

Non-pay inflation

Services have estimated their inflationary pressures as part of their medium term service and resource plans, taking account of known contractual commitments, and the potential to vary them, and other external factors such as RPI. These are set out in more detail in individual medium term service and resource plans.

The current low inflation environment should be appropriately reflected and indeed where the Council is engaged in specific contracts with in-built cost increases, there should be continuing challenge to reflect the wider economic conditions and the specific financial challenge facing the council.

Together with opportunities arising through more efficient and effective procurement arrangements, this is reflected in many medium term service and resource plans as through negotiate of lower costs and charges to the Council.

Interest rates

The Treasury Management Report elsewhere on this agenda details the Council's approach to Treasury Management. The Budget proposal needs to contain assumptions about interest that will be earned on cash balances, and interest paid on borrowing.

The Bank of England Base Rate stands at just 0.5% and our Treasury Management advisers expect them to remain at this level for the whole of 2010, increasing quite rapidly thereafter, although remaining below pre-recession levels into 2012.

Interest earned on cash balances continues to decline as some of the more beneficial rates achieved through various deposits made for up to one year come to an end.

In this context, the budget proposal as set out in Appendix 2 assumes that the average interest earned will be at least 1% in 2010/11, 2% in 2011/12, and 3% in 2012/13. An interest rate variation of 0.25% is worth approximately £100k.

As the Treasury Management report makes clear the Council is not expecting to have to increase its long-term borrowing in 2010/11.

The actual level of cash balances is the final element to be considered and this is largely driven by the timing of payments and receipts in the capital programme, as well as the levels of reserves. The Council currently has cash balances invested of between £40-£50m (excluding amounts invested on behalf of third parties and schools). These balances are expected to reduce as the Council continues to internally fund borrowing for its capital programme in the short term. The Budget proposal in Appendix 2 includes a proposed Capital Programme.