



AGENDA ITEM: 12

CABINET: 17th November 2009

**EXECUTIVE OVERVIEW AND SCRUTINY
COMMITTEE: 3rd December 2009**

Report of: Council Secretary and Solicitor

Relevant Portfolio Holder: Councillor D. Westley

**Contact for further information: Marc Taylor (Extn.5092)
(E-mail: Marc.Taylor@westlancs.gov.uk)**

SUBJECT: BUDGET PROSPECTS

Borough wide interest

1.0 PURPOSE OF THE REPORT

1.1 To provide an initial assessment of the budget prospects for future years.

2.0 RECOMMENDATIONS TO CABINET

2.1 That the Council's challenging budget prospects for future years are noted, including the combination of limited resources and spending pressures.

2.2 That call in is not appropriate for this item as it is to be submitted to the next meeting of Executive Overview and Scrutiny Committee.

3.0 RECOMMENDATIONS TO EXECUTIVE OVERVIEW AND SCRUTINY COMMITTEE

3.1 That the Council's financial position be noted.

4.0 BACKGROUND TO THE GRA BUDGET POSITION

4.1 At this point in time last year the Council faced a very difficult financial position with a budget gap approaching £1m after having already taken over £0.7m worth of savings. A combination of reduced external income due to the recession and real term cuts in government grant support were reducing the resources available. At the same time there were a number of additional spending pressures including pension costs, job evaluation, energy costs and benefits spending. These factors were not unique to West Lancashire but face local authorities across the country.

- 4.2 To address this situation it was agreed that funding would be taken from reserves to provide time to implement an Organisational Downsizing initiative. This initiative will generate £1.25m savings for the GRA which will resolve the budget issues for 2009-10 and provide a significant level of additional savings for 2010-11.
- 4.3 By recognising the difficult financial position at an early stage and taking decisive action the Council is now significantly ahead of the curve compared to most other authorities and has a clear and deliverable financial plan in place.
- 4.4 This report sets out an initial assessment of the Council's budget prospects for future years given the information that is currently available. At this early stage in the budget process there is still a significant amount of uncertainty and work to be completed, and further reports will be made to Members as the position becomes clearer. In due course the Council will set its budgets for 2010-11 at its meeting in February 2010.

5.0 FUTURE GOVERNMENT GRANT SUPPORT

- 5.1 The government has previously announced that the grant increase the Council should receive in 2010-11 will be 0.6%. However it will not be clear until early December when the Provisional Finance Settlement is published as to whether this figure is realistic.
- 5.2 In subsequent years the poor state of public sector finances means that the prospects for grant settlements are bleak, and the government may decide to make dramatic reductions in the funding it provides. A 1% reduction in general grant is equivalent to £95,000 and so significant cuts in grants in future years could require large scale savings to be made. Consequently if in future years there are 10% plus reductions in government grants (as many commentators believe may take place) then this will have a major impact on the Council.
- 5.3 There is also the possibility that changes in responsibilities for functions, and in particular the potential transfer of responsibility for travel concessions to the County Council, could have a significant detrimental impact in 2011-12. An early consultation paper published by the Government on the transfer of concessionary travel set out a number of different options that would have an adverse impact of between £0.3m and £1.0m depending on the specific approach chosen. Similarly potential changes to the HRA finance system could have a major adverse effect on the GRA although the way in which the new system would work in practice is far from clear.
- 5.4 Developments in these areas will be monitored closely over the next few months and the Council may well need to work with other local authorities to lobby the government to protect its financial interests.

6.0 GRA BUDGET PRESSURES

- 6.1 The level of the pay award will be a key factor in future budget rounds. Each 1% increase will cost around an additional £160,000 but typically the pay award will not be determined until some time after the budget is set. Both the Labour and Conservative parties have recently made statements about controlling / freezing public sector pay and this may lead to relatively low settlements in future years but this is not guaranteed.
- 6.2 As a result of the recession external income levels for 2009-10 were reduced across a range of areas including planning fees and charges, treasury management, land charges and CRA portfolio income. The total reduction was £751,000 and it is likely that income levels will continue to be depressed for some time and may even deteriorate further in the short term. While income levels will start to recover at some point the timing and the extent of this recovery is far from clear, and this factor is outside the direct control of the Council. In this respect it is important that the budgets that are set for future years are produced on a prudent basis and do not rely on overly optimistic income assumptions.
- 6.3 The Council has benefited from £2.160m of LAGBI grant funding in recent years (reward grant from the government for increases in the business rate base). However changes in the way this scheme operates mean that all authorities in future will receive significantly less funding. LABGI monies are being used at a rate of £347,000 per year to support the bottom line budget position and are projected to run out part way through the 2012-13 financial year. At this point an alternative funding source will need to be found or matching savings made.
- 6.4 Unfortunately while resources are likely to be strictly limited over the next few years the Council will face a number of spending pressures at the same time. In particular employee costs are likely to rise sharply in 2011-12 as a result of a 0.5% increase in national insurance rates, an anticipated increase in pension costs following an actuarial review of the pension fund, and the ongoing effect of job evaluation.
- 6.5 Divisional Managers are also currently reviewing potential budget issues including the impact of changes in legislation and unavoidable and essential increases in costs. These factors will also need to be built into the budget and information on these issues will be produced over the forthcoming months.

7.0 OVERALL GRA POSITION

- 7.1 The difficult overall financial position that the Council will face in setting future year's budgets largely reflects national or global issues that are not within its direct control. Most local authorities will also find themselves facing similar issues.
- 7.2 However in the areas that the Council can control it has a strong track record of delivering efficiency improvements. In particular the Council achieved £0.622m of cashable efficiency savings last year and is forecast to achieve a further £0.647m of value for money savings in the current year, which is in excess of 3% of the revenue budget per year. This track record has enabled Council tax increases to be delivered at or below the rate of inflation for many years.

- 7.3 Many commentators believe that an armageddon in public sector finances will take place over the next few years. Recent statement by the main political parties have also highlighted this issue and to put this into context a 10% cut in government grants would produce a loss of income to the Council of around £950,000.
- 7.4 Officers will work closely with Members over the next few months to ensure that the best possible budget can be set given the financial constraints. However it is likely that there will be very limited opportunities for growth and that a significant level of savings will be required in future years. Consequently the budget that is set for next year needs to take into account the difficult medium term position facing the Council. In addition the Council needs to maintain sufficient reserves and balances so that it can deal with its financial pressures in an efficient and effective manner.
- 7.5 Consequently there will be a need to deliver further significant savings on top of the OD savings that have already been achieved. In considering future budget rounds there are a number of initiatives underway or that could be considered to deliver savings including:
- The development of the waste transfer station (previously agreed by Cabinet and Council)
 - Outsourcing of the HR function (Council agreed to explore this option at its meeting in July)
 - Organisational Reengineering Reviews in Environmental Health and Private Sector Housing that are now almost completed
 - The new parking enforcement arrangements that were implemented at the start of September
 - Market testing of the garage function at the depot that is currently underway
 - Potential further senior management restructuring
 - Potential sources of partnership funding, such as performance reward grant, that could possibly be used to finance new or existing schemes
 - A general increase in fees and charges in line with inflation

8.0 CAPITAL PROGRAMME PROSPECTS

- 8.1 For many years the main source of internal funding to support the capital programme has been capital receipts generated by Council House sales. The pattern of these sales has meant that it could be anticipated that at least £1m of funding would be generated by this method each year. Other asset sales (most noticeably land sales) also contributed resources to the programme but this has not been a regular element in the past.
- 8.2 More recently the number of Council House sales has decreased rapidly. The reduction in sales is probably due to a combination of factors including the economic downturn, difficulties in tenants obtaining a mortgage, limits on the maximum discount for right to buy sales, and possibly that the majority of tenants that want to buy their homes have already done so. To put this into perspective, in 2007-08 91 Council houses were sold but in the current year to date the number of sales is just 2 (although there are a number of applications that are currently being processed).

8.3 The Council has sufficient receipts generated from previous asset sales to fund the capital programme for 2009-10 and 2010-11. However if the current very low level of receipts persists – and this is a significant possibility - then a funding gap will emerge in 2011-12. It is however very difficult to predict the pattern of asset sales as it is such a volatile area.

8.4 There are a number of different strategies that can be used to deal with this scenario including:

- Re-profile capital schemes into later years
- Use alternative funding sources such as the Housing Capital Allocation and Major Repairs Allowance to replace funding from capital receipts for Housing Private and Public Sector schemes
- Take out prudential borrowing to fund capital schemes (although this will have an impact on the revenue budget)
- Provide more funding for the programme from revenue contributions and reserves
- Further develop and exploit opportunities to attract external funding – the successful bid for social housing grant to build new Council Houses at Elmstead is a good example of this approach
- Reprioritise the existing capital programme to focus on essential and unavoidable expenditure

8.5 Officers will review these options in conjunction with Members during the budget process. However, while this is a significant financial issue, given the medium term nature of the capital programme this situation can be dealt with over a number of years rather than requiring urgent action at this time.

9.0 SUSTAINABILITY IMPLICATIONS / COMMUNITY STRATEGY

9.1 There are no direct sustainability implications arising from this report.

10.0 RISK ASSESSMENT

10.1 The budget setting process is part of the overall budgetary management and control framework that is designed to minimise the Council's financial risks. This process is resource intensive for both Members and Officers but ensures that a robust and achievable budget is set.

Background Documents

There are no background documents (as defined in section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

There is no evidence from an initial assessment of an adverse impact on equality in relation to the equality target groups.

Appendices

None