



**AGENDA ITEM: 14**

**CABINET: 19<sup>th</sup> January 2010**

**EXECUTIVE OVERVIEW AND  
SCRUTINY: 4<sup>th</sup> February 2010**

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**Report of: Council Secretary and Solicitor**

**Relevant Portfolio Holder: Councillor D. Westley**

**Contact for further information: Mr Marc Taylor (Ext. 5092)  
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**SUBJECT: REVENUE ESTIMATES 2010-11**

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Borough wide interest

**1.0 PURPOSE OF THE REPORT**

1.1 To provide a summary on the current 2010-11 budget position.

**2.0 RECOMMENDATIONS TO CABINET**

2.1 That the financial position for 2010-11 be noted, and consideration given to how a balanced budget can be achieved.

2.2 That the Portfolio Holder for Finance be given delegated authority to submit firm proposals to Council on 24<sup>th</sup> February 2010 to enable the budget to be set.

2.3 That call in is not appropriate for this item as the report is to be submitted to the Executive Overview and Scrutiny Committee on 4<sup>th</sup> February 2010.

**3.0 RECOMMENDATIONS TO EXECUTIVE OVERVIEW AND SCRUTINY COMMITTEE**

3.1 That the budget position be considered and that any comments agreed by the Committee be submitted to the Portfolio Holder for Finance in advance of the Council meeting to be held on 24<sup>th</sup> February 2010.

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## **4.0 BACKGROUND**

- 4.1 The Council is required to set a budget for the 2010-11 financial year in accordance with section 32 of the Local Government Finance Act 1992. The Council meeting on the 24<sup>th</sup> February will provide all Members with the opportunity to debate and agree this budget.

## **5.0 DRAFT ESTIMATES**

- 5.1 At this point in time last year the Council faced a very difficult financial position with a budget gap approaching £1,000,000 after having already taken over £700,000 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.
- 5.2 To address this situation it was agreed that funding of £953,000 would be taken from reserves for one year only to provide time to implement an Organisational Downsizing initiative. This initiative will generate £200,000 of savings for the GRA in 2009-10 and a further £1,050,000 of savings for 2010-11.
- 5.3 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.
- 5.4 Divisional Managers have now reviewed their income budgets once again in the light of current information and the ongoing recession and have identified that further reductions are required of £275,000 in relation to Planning income, CRA rents and Treasury Management. These income reductions are not within the direct control of the Council and reflect market conditions including the fact that interest rates are at historically low levels.
- 5.5 Draft estimates for 2010-11 have been prepared that include increases in the base budget to roll forward agreed service levels into the next financial year. This base budget uplift reflects standard items such as the pay award (estimated at 1%) and contract inflation that are required each year and that cannot be avoided. It is estimated that the base budget uplift required for 2010-11 will be £260,000.
- 5.6 The Council has however benefitted from a lower than expected pay award in the current year. The difference between the actual and budgeted pay awards for 2008-09 and 2009-10 was 1.25%. This reduction in the cost of the pay award will produce a saving in the order of £200,000 for the year.
- 5.7 The government have announced that Employer National Insurance rates will increase by 1% from April 2011, and in addition it is anticipated that there will also be an increase in the Employer Superannuation Rate payable following an actuarial review of the pension fund that is due to be carried out over the next 12 months. While these factors will not affect next year's budget they do represent cost pressures that will come to bear over the medium term.

5.8 I have reviewed these estimates to ensure that they are robust for the purposes of the budget calculation in accordance with the requirements of the Local Government Act 2003.

## 6.0 LOCAL GOVERNMENT FINANCE SETTLEMENT

6.1 On the 26<sup>th</sup> November the Government announced the provisional finance settlement for local government for 2010-11. The results of this settlement were essentially as forecast with the Council receiving a £56,000 or 0.6% increase in its main grants (RSG and business rates).

6.2 As has been the case in recent years this was once again significantly below the national average increase for District Councils of 1.4%, and below the average for the whole of England of 2.6%. It is also well below the grant increase for the County Council of 5.1%. Details on the settlements for other neighbouring local authorities are shown below.

AUTHORITY	Increase	AUTHORITY	Increase
England (average)	2.6%	OTHER LANCASHIRE	
Shire districts (average)	1.4%	Blackburn with Darwen	4.9%
		Blackpool	4.0%
LANCASHIRE DISTRICTS		Lancashire County	5.1%
Burnley	0.5%	Lancashire Police	2.7%
Chorley	1.5%	Lancashire Fire	0.5%
Fylde	2.4%		
Hyndburn	1.2%	NEIGHBOURING METS	
Lancaster	2.4%	Knowsley	1.5%
Pendle	1.0%	Liverpool	1.5%
Preston	0.5%	Sefton	2.4%
Ribble Valley	3.6%	St Helens	2.8%
Rossendale	0.5%	Wirral	3.4%
South Ribble	0.9%	Wigan	3.2%
West Lancashire	0.6%		
Wyre	3.0%		

6.3 In 2009-10 West Lancs council tax increase was 2.0% compared to a national average increase of 3.0%. The Government have stated that they anticipate that the national increase for 2010-11 should be lower, and that they will use their capping powers to prevent any increases that they consider to be “excessive”. The government have not however issued any details on what they would determine an increase to be excessive.

6.4 Local authorities had until 6<sup>th</sup> January to respond to the Government on the contents of the settlement. However unless there is a mathematical error in the formula used to calculate the settlement it is very unlikely that any changes will be made to the grant allocations. It is expected that the final settlement will be announced in mid to late January.

- 6.5 In subsequent years after 2010-11 the poor state of public sector finances means that the prospects for grant settlements are bleak, and the government is likely to make dramatic reductions in the funding it provides. CIPFA and SOLACE have recently published a joint report entitled "After the Downturn" that examine 2 scenarios of either a 7.5% or a 15% real terms reduction in grant funding over a three year period. For West Lancs this would equate to a grant reduction of between £712,000 and £1,425,000, and would require significant savings to be made to produce a balanced budget.
- 6.6 There is also the possibility that changes in responsibilities for functions, and in particular the proposed transfer of responsibility for travel concessions to the County Council in April 2011, could have a significant budget impact. Similarly potential changes to the HRA finance system could have a major impact although the way in which the new system would work in practice is unclear.
- 6.7 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.

## 7.0 CURRENT BUDGET POSITION

- 7.1 The following table provides a summary of the budget position based on the factors set out above and the information that is currently available. This shows that there is an initial budget gap of £228,000 when comparing increases in the draft estimates, reductions in external income and other factors to the increase in government grant.

<u>Budget Summary</u>	Reference	£000
Funding from reserves agreed for the 2009-10 budget for one year only	Para 5.2	953
Savings from Organisational Downsizing	Para 5.2	-1,050
Anticipated reductions in external income	Para 5.4	275
Base budget uplift	Para 5.5	260
Saving on lower than expected pay award	Para 5.6	-200
Other Items (net)		46
Increase in government grant	Para 6.1	-56
Budget gap		<u>228</u>

- 7.2 Divisional Managers have also identified a range of further budget issues that mainly relate to unavoidable cost increases and potential savings in addition to the figures set out above. Members will need to carefully consider what proposals to include in the final budget to meet corporate and service objectives but also to

ensure a balanced overall financial position. The scale of the budget gap is dependent upon a range of factors that include:

- The acceptance of budget issues identified by Divisional Managers
- Changes to fees and charges
- The use of balances and reserves
- Weighing the implications of the potential savings options identified by Divisional Managers
- The draft estimates as presented in this report do not currently contain any provision for increases in the council tax. However each 1% increase in the council tax level will produce around £69,000 of additional income.

7.3 Past experience demonstrates that there will normally be a significant gap at this stage of the budget process. However the Organisational Downsizing initiative means that the Council is now well placed to set a balanced budget for 2010-11. However the anticipated cost pressures for later years combined with the likelihood of reductions in grant funding mean that the overall medium term financial position will be very challenging, and will require further substantial savings to be made.

7.4 The Group leaders and their financial spokespersons are currently examining in detail various budget options. A more detailed set of budget papers will be reported to the Executive Overview and Scrutiny Committee to enable a more in depth consideration of the budget position. The Council meeting will then provide an opportunity for each Political Group to put forward proposals that combine both expenditure and the means of funding it and to set the Council Tax.

## **8.0 SUSTAINABILITY IMPLICATIONS / COMMUNITY STRATEGY**

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

## **9.0 RISK ASSESSMENT**

9.1 The formal consideration and reporting of the budget estimates is part of the overall budgetary management and control framework that is designed to minimise the financial risks facing the Council. This process is resource intensive for both Members and Officers but ensures that a robust and achievable budget is set.

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### **Background Documents**

CIPFA/SOLACE "After the Downturn" December 2009  
Accountancy Office

### **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