

WYRE FOREST DISTRICT COUNCIL

CABINET
27th OCTOBER 2009

Budget Issues Report 2010/13

OPEN	
SUSTAINABLE COMMUNITY STRATEGY THEME	Stronger Communities
CORPORATE PLAN AIM:	A Well-run and Responsive Council
CABINET MEMBER:	Councillor Nathan Desmond
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APPENDICES:	None

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to identify the emerging budget issues which will affect the Service and Financial Planning process, leading to the presentation of the Financial Strategy 2010-13.

2. RECOMMENDATIONS

The Cabinet is asked to:-

- 2.1 **Endorse the assumptions to be used within the Budget 2010-13 made within this report;**
- 2.2 **Support the work of the Budget Review Panel in undertaking the prioritisation exercise to assist forming Financial Strategy;**
- 2.3 **Continue to work with the Corporate Management Team, in order to bring forward the Financial Strategy on 22nd December 2009, ahead of consultation.**

3. BACKGROUND

- 3.1 On 25th February 2009, Council approved the latest version of the Medium Term Financial Plan for the period 2009/10 to 2011/12.
- 3.2 Due to national and international economic issues, the budget process last year was extremely challenging and difficult decisions were required in order for the Council to contain expenditure within available resources. As part of this process reductions in cost of around £2m were identified in 2009/10, rising to £3m in 2010/11 (equivalent to 20% of the Council's net budget).
- 3.3 The Financial Strategy is scheduled to be presented to the Cabinet on 22nd December 2009, and following this there will be a period of consultation before the final approval by Council on 24th February 2010. This report seeks to identify the major issues that will impact on the Council's budget for 2010/11 and beyond.

Issues that will be considered within this report include:

- Level of Government Support
- Support from Reserves
- Potential income from Council Tax
- Position in relation to Fees and Charges
- Forecast Budget Pressures for 2010/11 and beyond

Government Support

- 3.4 Since 1998 the Government has been undertaking a series of spending reviews to set priorities and resource level for government departments. These processes have been as either the Comprehensive Spending Review (CSR) or Spending Review (SR). The CSR is a more fundamental review than the normal SRs.
- 3.5 The spending reviews have been useful to Local Government in making assumptions in relation to the level of financial support that may be available to local authorities. Shown below is a brief table summarising these reviews:

Spending Review	Years Covered	Duration
1998 CSR	1999/00 to 2001/02	3 Years
2000 SR	2001/02 to 2003/04	3 Years
2002 SR	2003/04 to 2005/06	3 Years
2004 SR	2006/07 to 2007/08	2 Years
2007 CSR	2008/09 to 2010/11	3 Years

- 3.6 From the 2007 CSR and the moves to provide indicative financial settlements it has been possible to forecast the level of financial support which will be provided to the Council up to and including the 2010/11 financial year. This view was reinforced in the Budget earlier this year and therefore in line with the current medium term financial plan it is possible to predict the support available for 2010/11 at £8,067,120. It is worth noting that this figure is more than half of the Council’s net budget requirement, the balance funded from Council Tax.
- 3.7 As has been widely reported however, the picture is far less clear for the final two years to be included within the Financial Strategy. The budget deficit for the UK is estimated to be around £175bn for 2009, a record level. The Government announced in July this year that the planned Comprehensive Spending Review 2009 was cancelled, the reason being “*given the degree of economic uncertainty, now would be the wrong time to set departmental budgets through to 2014*”.
- 3.8 It is expected that addressing the level of the budget deficit will be the main responsibility of the Government following the general election next year. There has been significant speculation in the national press surrounding the level of potential reduction that may be required in the Government’s departmental budgets. It is expected however, that high profile areas such as Education, Health and Social Care will be protected to a degree from such reductions.

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- 3.9 It is not possible to predict with any certainty as to the level of any reduction, however, for budget purposes a 10% reduction in Government grant will be prudently assumed in 2011/12, increasing to 15% in 2012/13. The result of this can be shown in the table below:

Year	Government Support £	Increase/ (Reduction) £	Increase/ (Reduction) %
2009/10	7,980,700	101,940	1.2
2010/11 (*)	8,067,120	86,420	1.1
2011/12	7,260,400	(806,720) (est.)	(10%)
2012/13	6,857,100	(403,300) (est.)	(5.5%)

(*) – Last year covered by the Comprehensive Spending Review 2007

- 3.10 Within the previous medium term financial plan it was predicted that the level of Government support would remain unchanged in 2011/12, it is no longer prudent to maintain this view. It is also clear that no further information will be made available by Government before the Council is obliged to set its budget on the level of resources available beyond 2010/11.

Support from Reserves

- 3.11 Within the current Medium term financial, there is a scheduled contribution from reserves to support the Council's budget. These reserves have been accumulated in the past and have been generated through issues such as under spends against expected expenditure and over recovery of income, most notably in relation to historical returns on investment income.
- 3.12 The planned contributions from reserves over the four years of the forecast total around £3.3m and are detailed are as follows:
- 2008/09 - £1,422,540
 - 2009/10 - £ 822,850
 - 2010/11 - £ 292,020
 - 2011/12 - £ 769,950
- 3.13 From the figures above, it is clear that the Cabinet proposals which were implemented during the budget result in a much reduced contribution from reserves in 2010/11, however, due to issues such as an assumed freeze in government grant, this position increases significantly in 2011/12. It is currently assumed that there will be no contribution from reserves in 2012/13.

Income from Council Tax

- 3.14 The current assumption built into the Medium Term Financial Plan allows for a 2.5% year on year increase in Council Tax. At this stage there will be no changes to this assumption. If this level is maintained then the following resources will be available to support the Council's overall financial position:

Year	Level of Council Tax Band D £	Total Council Tax Income £	Increase/ (Reduction) £
2009/10	192.80	6,712,520	194,290
2010/11 (*)	197.62	6,880,340	167,720
2011/12	202.56 (est.)	7,052,350	172,010
2012/13	207.62 (est.)	7,229,500	177,150

Note : no assumptions have been made in relation to increases in Tax Base.

Income from fees and charges

- 3.15 The current assumptions in relation to fees and charges allow for a 2.5% year on year increase. Consideration is being also given to these against market rates and also in relation to ensuring as far as possible that areas become self-financing

Forecast Budget Pressures 2010/11 and beyond

3.16 Investment Interest

- 3.16.1 During the budget process for 2009/10 investment interest budgets were reduced from £1.6m in 2008/09 to £300k. The forecast however did allow for recovery in interest rates in 2010/11 (up to 3%) and again in 2011/12 (increasing to 4%).

- 3.16.2 The current base rate remains at 0.5%, it is now forecast that the next movement in this rate will not be for some time, possibly June/July 2010. The Council will therefore need to restate the assumptions for investment returns to ensure that they remain realistic. The proposed assumptions to be used in relation to the investment returns will be as follows:

- 2009/10 – 0.5%
- 2010/11 – 1.75%
- 2011/12 – 3%
- 2012/13 – 4%

- 3.16.3 It is too early in the budget process to predict the likely level of interest receipt in each of the years above; however, this will be included within the Financial Strategy 2010-13 to be presented to the Cabinet in December 2009.

3.17 Capital Programme

- 3.17.1 In addition to the rate to be applied, assumptions need to be made in relation to the level of funds available to invest, which is intrinsically linked to the Capital Programme.

- 3.17.2 The current capital programme contains four main areas, these being:

- Construction of new single site
- Provision of a new cemetery/crematorium
- Implementation of ICT Strategy
- Provision of replacement vehicles

- 3.17.3 In addition to these commitments as part of the budget setting process there will need to be a review of the capital requirements of implementing new waste and recycling arrangements in order to meet the vision of the Joint Municipal Waste Management Strategy and the introduction of the enviro-sort facility. Discussions are on-going with the County to determine what resources may be available to support this initiative.
- 3.17.4 The majority of the initiatives identified above are being pursued with the view of improving the Council's efficiency. It is assumed that these will be continued and annual savings of around £1m pa will be achieved when these are fully implemented.

3.18 Icelandic Investments

- 3.18.1 As at 8th October 2008, the Council had £9m of investments at risk. This figure has now reduced to £7.8m following interim dividends from the administrators of the Heritable and Kaupthing, Singer & Friedlander. Further dividends are expected during 2009/10 from these two banks and on into 2010/11 as the information from the banks administrators remains positive.
- 3.18.2 In relation to the Landsbanki, the current position remains unchanged, with any reimbursement placed on hold until October 2010. The current medium term financial plan assumed that around £6m of the original investments would be returned by April 2010. It is likely that this assumption will need to be reassessed to later in 2010, this will impact on assumed levels of investment return. However, with the current depressed rates of interest this will significantly reduce the impact of this issue.
- 3.18.3 A further implication of the Icelandic investments relates to the requirement to account for impairment (ensuring that the accounts reflect a prudent view in relation to the prospects for the return of the investments). Such impairment charges would normally result in a revenue cost to the Council (even though the investments themselves were the Council's capital receipts). In March 2009, the Government introduced legislation to defer any impact upon Local Authority accounts for impairment until 2010/11, the rationale being that there would be significantly more information available at that time to make sensible decisions in relation to the return of the investments.
- 3.18.4 As at 31st March 2011, it is uncertain as to whether the Council would have received full return of its Icelandic deposits, therefore at that stage a "real" revenue charge would need to be made to the Council's accounts. It is clear that it would be prudent for the Council to make a capitalisation direction to the Government (a request to charge revenue costs to capital), however, there is no guarantee that this will be approved.
- 3.18.5 The Medium Term Financial Plan assumes that other than the impact upon investment interest, no allowance has been made for impairment costs. This assumption will need to be reviewed during the consideration of the budget next year as the Government guidance on the matter is clarified.

3.19 Pay Award

- 3.19.1 The pay award allowed for in the original estimates for 2009/10 to 2011/12 was a 2% year on year increase. The position for 2009/10 has now been agreed between the unions and employers at a 1% increase.
- 3.19.2 Pay is the biggest area of expense for the Council and during these challenging financial times it is essential that restraint is made in relation to future pay settlements. At this stage it is assumed that pay will increase by 1% in each of the years within the Financial Strategy. This position will deliver annual an improvement in the pay estimates of around £100k pa and assist with meeting the Council's financial challenges.
- 3.19.3 Both the Labour Party and Conservative Party have indicated that they would support a public sector pay freeze under certain conditions and this would impact on the Councils budgets. This commitment will have a positive effect on the Councils pay estimates of around £100k pa.

3.20 Pay Inflation

- 3.20.1 Work is progressing on the detailed Base Budget position, apart from pay and specific contracts with third party providers the Council will be implementing a freeze in inflation.

3.21 Pensions

- 3.21.1 County Council manages the Local Government Pension Scheme on behalf of all of the districts in the County. The cost of pensions continues to increase, linked directly to issues such as reductions in investments and increases in life expectancy.
- 3.21.2 A review of the pension scheme is to be undertaken by the actuaries employed by the County Council. The current assumption is that there will be an annual increase of 1% pa in the employers' contribution towards pension costs. This is on-top of the increased contributions that officers now make into the pension fund.

3.22 Worcestershire Enhanced Two Tier Working

- 3.22.1 As previously reported to the Cabinet the Council is participating in developing a detailed business case into the joint delivery of services with the County and districts across the County area. Further reports will be presented to the Cabinet and Council on these proposals during the next few months. However, it is essential that if the Council participates in exploring such joint working the savings arising must be significant, and delivered in sufficient time to support the Medium Term Financial Plan

3.23 Service issues

- 3.23.1 Work is progressing on identifying specific budget pressures as part of the wider budget process. Any areas of unavoidable growth or reduction will be reported and identified within the Financial Strategy 2010-13.

This will include issues referred to above such as the Waste and Recycling arrangements and progress in arrangements for the Single Site project.

4. KEY ISSUES

- 4.1 It is essential that the Council continues to review methods of working to ensure that the most efficient practices are utilised. However, it will be necessary for the Council to carefully consider and review the range of services which are provided. This review will build upon the work of the Budget Review Panel which during October will be implementing the Prioritisation Model adopted as part of the budget process earlier this year.
- 4.2 The Cabinet are formulating proposals in relation to the budget issues contained within this report alongside the Corporate Management Team, which will result in the Financial Strategy 2010-2013 being presented to the Cabinet in December.
- 4.3 It is clear that the steps necessary to deliver a balanced budget over the next three years will have a direct implication on the number of staff that the Council employs. Whilst every effort will be made to ensure that any reductions in staffing are met through natural wastage, the possibility of redundancies cannot be ruled out. Discussions will be on-going with the unions during the budget process on this issue.

5. FINANCIAL IMPLICATIONS

- 5.1 This is a finance report which has been produced to identify the emerging budget issues to be considered within the Financial Strategy 2010-2013.

6. LEGAL AND POLICY IMPLICATIONS

- 6.1 There are no legal implications directly arising from this report.

7. CONCLUSIONS/ACTION

- 7.1 The Financial Strategy 2010-13 will require careful consideration and the input of all Councillors. This report has identified the most significant issues which will be facing the Council during this process.
- 7.2 The Cabinet will present its Financial Strategy 2010-13 to the meeting in December, allowing time for careful consideration during January before the budget is to be approved in February 2010.
- 7.3 It is clear that whilst a number of initiatives to ensure that efficiency is improved within the Council are implemented, these alone will not deliver the level of savings required to ensure the on-going sustainability of the Council's financial position.
- 7.4 This report is the first stage of the budget process and has been produced at this stage for information only; however, the assumptions contained within this report will be used to underpin the Financial Strategy.

Work is continuing to identify measures to mitigate the impact of the budget pressures and to ensure the Council's financial sustainability.

8. CONSULTEES

Corporate Management Team.

9. BACKGROUND PAPERS

None.