

WIRRAL COUNCIL

FINANCE AND BEST VALUE OVERVIEW AND SCRUTINY COMMITTEE

17 SEPTEMBER 2007

REPORT OF THE DIRECTOR OF FINANCE

PROJECTED BUDGET 2008-2011

1. EXECUTIVE SUMMARY

- 1.1. This report updates the projected budgets for 2008-2011 to coincide with the period of the Comprehensive Spending Review 2007 (CSR). The Department for Communities and Local Government (DCLG) has stated that, following the CSR, the Local Government Finance Settlement will cover the period from 2008 to 2011 and that Local Authorities will be expected to budget on a three year basis.

2. BUDGET 2007-08

- 2.1. The summary budget for 2007-08 as agreed by the Council on 1 March 2007 is as follows:

	£m
Base Budget	260.3
Resources	
Formula Grant	133.9
Council Tax	119.3
Collection Fund	0.4
One Off Specific Grants	0.9
Use of Balances	<u>5.8</u>
	260.3

3. COMPREHENSIVE SPENDING REVIEW

- 3.1. The Government is undertaking a Comprehensive Spending Review (CSR) in 2007, the outcome of which should be announced in October 2007. Submissions continue to be made to try to ensure that the CSR is as beneficial as possible for Local Government in general and Wirral in particular.
- 3.2. Following the CSR, the DCLG should announce a three year provisional Local Government Finance settlement in December 2007. Obviously, the budget for 2008-2011 will be heavily influenced by the CSR and the Local Government Finance settlement.

4. **VARIATIONS IDENTIFIED FOR 2008-2011**

- 4.1. **Inflation** – Provision is included for pay at 2% and income at 3% for 2008-2011. Provision has been included for price inflation at 2% in line with the Cabinet decision of 24 May 2007.
- 4.2. **Capital Financing** – Cabinet on 14 December 2006 agreed the capital programme for 2007-2010. I am assuming the following:-
 - (a) the continuation of the capital programme at the current level.
 - (b) the capitalisation of highways expenditure.
 - (c) DCLG consent to the capitalisation of part of the equal pay awards, but refer to paragraph 6 below.
- 4.3. **Waste Disposal** – The waste disposal levy is projected to increase by 12.5% for 2008-09, by 15.3% for 2009-2010 and by 14.5% for 2010-2011. The Chancellor of the Exchequer, in his Budget, announced further annual increases in the rate of Landfill Tax which will increase the levy by an additional £1.2m per annum. The levy will be dependent on progress on the implementation of the Waste Disposal Strategy including the PFI scheme.
- 4.4. **Pension Fund** - The Pension Fund is currently being actuarially revalued as at 31 March 2007. The revised contribution rates will be implemented from 2008 and I am assuming a continuation of the increases experienced between 2005 and 2008.
- 4.5. **Merseytravel** – The Merseytravel levy is projected to increase by an average of 5% per annum.
- 4.6. **Invest to Save Schemes** – There are a number of invest to save schemes underway in Adult Social Services and Technical Services - Energy Conservation which will produce savings.
- 4.7. **Time Expired Funding** – There are a number of time expired funding issues to be resolved.
- 4.8. **Information and Communications Technology** – The ICT strategy is reported elsewhere on this agenda. Implementation of the ICT Strategy will have financial implications.
- 4.9. **Private Finance Initiative** – Increase in PFI payments from 2009-2010 as PFI reserve reduces.
- 4.10. **Other Unavoidable Growth** – A number of relatively minor items of unavoidable growth of less than £0.2m will arise. These should total less than £1m.

5. OTHER DEVELOPMENTS

5.1. There are a number of other developments which are likely to impact on the financial position of the Authority over the period 2008 to 2011. The impact of these issues will be reported to the Cabinet and reflected in the regular projected budget reports as and when they are resolved. Some of the potentially most important issues are:-

- (a) Lyons Inquiry into Local Government reported to the Executive Board on 12 April 2007. Various issues are expected to be included in the CSR.
- (b) Varney Implementation Plan on Service Transformation now expected to form part of the CSR.
- (c) Changes to Schools Funding issued by the Department for Children, Schools and Families and reported to the Cabinet on 16 August 2007.
- (d) Welfare Reform Bill currently before Parliament which includes the proposed implementation of Local Housing Allowance from 2008.
- (e) Revised Local Government Pension Scheme to be introduced from 2008.
- (f) Review of Treasury Management Code of Practice to be introduced from 2008.
- (g) Review of Neighbourhood Renewal Fund. The DCLG has indicated that this will continue but details are awaited.
- (h) Review of the Local Authority Business Growth Incentive Scheme.
- (i) Review of Planning Delivery Grant which is likely to be retitled Housing and Planning Delivery Grant.
- (j) Possible introduction of Planning Gain Supplement.
- (k) Review of Supporting People Grant.
- (l) Review of Empty Property Rating.
- (m) Possible introduction of supplementary business rates.

6. LOCAL PAY REVIEW

- 6.1. The projected budget for 2008-2011 provides for the following:-
 - (a) the capitalisation of 57% of General Fund equal pay settlements.
 - (b) £4.5m per annum for costs resulting from job evaluation.
- 6.2. For those Local Authorities who were in a position to calculate their cost of equal pay settlements by 15 December 2006, the DCLG has allowed 57% of the total cost to be capitalised.
- 6.3. For those Local Authorities which could not meet the above deadline, including Wirral, the DCLG has requested final bids by 31 May 2007. The DCLG has promised a decision on such bids by 28 September 2007 but has indicated that any capitalisation will not be greater than 57% of the bid.
- 6.4. Any expenditure which is not capitalised has to be met from revenue in the year in which it is incurred. This is likely to be at least £4m which will have to be met in 2007-08.
- 6.5. The second element of the local pay review, job evaluation, will have to be completed by 31 March 2008, and will be backdated to 1 April 2007. The base budget for 2008-09 includes provision for £4.5m for job evaluation, including any market supplements.

7. BALANCES

- 7.1. Balances are currently maintained at £4.5m but an undertaking has been given to the District Auditor to increase to £5m for 2008-09. This will be reviewed as part of the twice yearly balance sheet management review.
- 7.2. Closure of the Accounts for 2006-07, prior to audit, resulted in a net contribution of £0.9m to General Fund balances.
- 7.3. Settlement of the equal pay element of the local pay review is likely to require at least an additional £4m to be met from balances in 2007-08 assuming the DCLG continues the policy on capitalisation adopted in 2006-07.
- 7.4. Cabinet on 26 April 2007 agreed to meet the loss of income of £0.3m from the Floral Pavilion Theatre closure from balances.
- 7.5. The Financial Monitoring Summary report elsewhere on this agenda identifies projected overspending by Adult Social Services and Children and Young People. However I am assuming that these projected overspends will be contained and therefore there will be no additional call on balances in 2007-08.
- 7.6. The projected balances are:-

£m

Opening Balance 1 April 2007	4.5
Out-turn 2006-07	0.9
Floral Pavilion Theatre	- 0.3
Equal Pay	- <u>4.0</u>
Projected Balance 31 March 2008	1.1

8. GRANTS

- 8.1. The Formula Grant is anticipated to increase by an average of 1.9% per annum in line with indications from the DCLG.
- 8.2. The Department for Work and Pensions (DWP) continues to increase the proportion of Benefits Subsidy which is awarded on the basis of performance. In recent years Wirral has been able to maintain an increase in Benefits Subsidy in line with the increase in expenditure, which has not been the case for many local authorities. I am assuming that as performance in service delivery has continued to improve then the level of Benefits Subsidy can be sustained. The likely introduction of Local Housing Allowance from 2008 could impact on Benefits Subsidy.
- 8.3. The Department for Transport has indicated that as a result of the extension of free bus travel for pensioners throughout the country, there will be a grant increase of about £210m. The method of grant distribution has yet to be agreed but Wirral should receive about £1.4m
- 8.4. The DCLG has indicated that the continuation of the Local Authority Business Growth Incentive scheme will be considered as part of the CSR.
- 8.5. The Chancellor of the Exchequer indicated in his Pre Budget statement on 6 December 2006 that the efficiency target for Local Authorities for the period of the CSR would be increased from 2.5%, of which 50% is cashable, to 3% all cashable. This efficiency saving is expected to be reflected in a reduction in the Formula Grant.

9. ADDRESSING THE SHORTFALL

- 9.1. The gap between projected expenditure and anticipated resources will need to be bridged by a combination of savings and/or increased Council Tax.
- 9.2. Cabinet on 24 January 2007 agreed to an efficiency plan for 2008 to 2011 aimed at delivering savings totalling £30m. Chief Officers were due to report to the Cabinet on 20 June 2007 detailing how their apportioned element of the efficiency plan would be delivered. Cabinet on 7 June 2007 agreed an increased efficiency plan target of £45m in line with the previous projected budget report. Chief Officers are still working to deliver proposals to meet these targets.

9.3. Cabinet on 20 June 2007 agreed in principle to the establishment of an efficiency investment fund of £2m to enable delivery of future efficiencies. The cost of this fund has not been reflected in the Appendix as, in line with the decision of the Cabinet, I am still seeking possible alternative sources of funding.

9.4. I am assuming an annual Council Tax increase of 4%.

10. FINANCIAL IMPLICATIONS

10.1. The indicative budget for 2008 to 2011 is compiled from the base budget for 2007-08 approved by Council 1 March 2007, the Medium Term Financial Strategy 2007-2010 agreed by the Cabinet on 23 August 2006, and updated for the issues outlined in this report. The projected budget is shown in Appendix 1 attached. The Medium Term Financial Strategy 2008-2011 is reported elsewhere on this agenda.

11. STAFFING IMPLICATIONS

11.1. There are none arising from this report.

12. EQUAL OPPORTUNITIES IMPLICATIONS

12.1. There are none arising from this report.

12. HUMAN RIGHTS IMPLICATIONS

12.1. There are none arising from this report.

14. LOCAL AGENDA 21 IMPLICATIONS

14.1. There are none arising from this report.

15. COMMUNITY SAFETY IMPLICATIONS

15.1. There are none arising from this report.

16. PLANNING IMPLICATIONS

16.1. There are none arising from this report.

17. LOCAL MEMBER SUPPORT IMPLICATIONS

17.1. There are none arising from this report.

18. **BACKGROUND PAPERS**

- 18.1. Comprehensive Spending Review – Treasury – July 2004
Medium Term Financial Strategy – 2007-2010
Formula Grant Settlement 2007-08 –DCLG – January 2007
Estimates 2007-08

19. **RECOMMENDATION**

- 19.1. That the projected budget for 2008 to 2011 be updated and reported regularly to the Cabinet.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/205/07

WIRRAL COUNCIL
PROJECTED BUDGETS 2008-2011

	2008-09	2009-2010	2010-2011
	£M	£M	£M
Base Budget	260.3	257.9	261.4
Pay Inflation	2.7	2.7	2.7
Price Inflation	4.2	4.2	4.2
Income Inflation	- 1.1	- 1.1	- 1.1
Capital Financing	3.0	2.7	3.0
Waste Disposal	2.8	3.4	3.8
Pension Fund Revaluation	1.3	1.3	1.3
Merseytravel	1.1	1.2	1.2
Private Finance Initiative	-	0.8	1.5
Unavoidable Growth	1.0	1.0	1.0
Invest To Save	<u>- 0.6</u>	<u>- 0.2</u>	<u>- 0.2</u>
	<u>274.7</u>	<u>273.9</u>	<u>278.8</u>
Balances	<u>3.9</u>	<u>-</u>	<u>-</u>
Forecast Expenditure	278.6	273.9	278.8
Resources			
Formula Grant	133.8	132.3	130.9
Council Tax	119.3	124.1	129.1
Forecast Resources	<u>253.1</u>	<u>256.4</u>	<u>260.0</u>
Shortfall	25.5	17.5	18.8
Council Tax Increase	4.8	5.0	5.2
Efficiency Plan	20.7	12.5	13.6