

WIRRAL COUNCIL

AUDIT AND RISK MANAGEMENT COMMITTEE

17 JANUARY 2011

REPORT OF THE DIRECTOR OF FINANCE

BUDGET PROJECTIONS 2011-2013

1. EXECUTIVE SUMMARY

- 1.1. This report updates the projected budgets for 2011-12 and 2012-13 taking into account the Spending Review presented on 20 October 2010 and the provisional Local Government Finance Settlement. It was presented to the Cabinet on 13 January 2011.

2. ASSUMPTIONS UNDERPINNING THE PROJECTIONS

- 2.1. Inflation – Cabinet on 9 December 2010 agreed that no provision be made for price inflation in 2011-12 with income to continue to increase by 3% per annum. Pay awards will be limited to those employees earning less than £21,000 per annum for 2011-13.
- 2.2. Capital Financing – Cabinet on 9 December 2010 agreed a capital programme at an increased revenue cost of £2.3m in 2011-12 and £1.9m in 2012-13. The Government has subsequently announced that there will be no revenue support for new capital expenditure.
- 2.3. Pension Fund – the increase arising from the actuarial valuation including the impact of the outsourcing of the highways and engineering services contract will increase the contribution by £0.8m in 2011-12 and by £0.3m in 2012-13.
- 2.4. Waste Disposal – for 2011-12 there should be a levy reduction of £1.0m. The Landfill Tax will increase by £8 per ton per annum, an increase of 50% between 2010-11 and 2014-15. The levy is assumed to increase by 8% in 2012-13.
- 2.5. Merseytravel – the levy is to increase in 2011-12 by £1.6m, the element of the grant receivable for concessionary travel and by 3% in 2012-13.
- 2.6. Private Finance Initiative – the latest projections are included.
- 2.7. Benefits – the Department for Work and Pensions is estimating an annual increase of 1.7%.
- 2.8. Schools – it is assumed that the Schools Budget will vary in line with the Dedicated Schools Grant.
- 2.9. Adult Social Services Reform – the previous Government announced that the Reform Grant of £1.9m will cease after 2010-11 with the assumed implementation of the personalisation agenda.

- 2.10. Carbon Reduction Commitment – payment of £0.5m commencing in 2011-12.
- 2.11 Home Insulation – increased cost from 2011 of £1m.
- 2.12 Guinea Gap and Leasowe Recreation Centres – restoration into budget at a cost of £0.6m each.
- 2.13 Swimming - the Department for Culture, Media and Sport has deleted the grant of £0.3m to fund free swimming.
- 2.14 Energy – Cabinet on 9 December 2010 agreed the renewal of energy contracts at an additional £0.3m.
- 2.15 Working Neighbourhoods Fund (WNF) – the previous Government announced that WNF which was originally worth £10.3m in 2010-11 would cease after 2010-11.
- 2.16 Economy and Regeneration – Cabinet on 9 December 2010 agreed to increased expenditure of £2.85m of which £0.74m should be funded by grant.
- 2.17 Efficiency Investment – in order to continue to deliver efficiencies in future years it will be necessary to continue to invest and therefore £2m per annum has been provided.
- 2.18 Other Unavoidable Growth – a number of items of unavoidable growth of less than £0.2m will arise. These usually total about £1m per annum.
- 2.19 Council Tax – the Government has announced a freeze in Council Tax increases for 2011-12. A specific grant equivalent to a Council Tax increase of 2.5% will be receivable. From 2012-13 any proposed increase above the rate of inflation will be the subject of a local referendum.

3. GRANT NEGOTIATIONS

- 3.1. Consultation on a range of options potentially affecting the Revenue Support Grant distribution closed on 6 October 2010. The Wirral response to the consultation was reported to Cabinet on 14 October 2010. Consultation also took place on a number of specific grants.
- 3.2. HM Treasury presented the Spending Review on 20 October 2010. The Department for Communities and Local Government (DCLG) indicated a reduction in Government Grants equal to 7.1% per annum for 2011-15. Subsequently the DCLG indicated that the reduction would be front loaded.
- 3.3. Announcement of the provisional Local Government Finance settlement commenced on 13 December 2010. Details of the latest position are reported elsewhere on this agenda. Area Based Grant (ABG) and the majority of specific grants have been included in the Revenue Support Grant (RSG). Overall there is a grant reduction of £41m but clarification is still awaited on a number of elements of the RSG and a number of specific grants.
- 3.4. The provisional settlement is for two years only, and consultation is open until 17 January 2011.

- 3.5. The Government has commenced reviews of public sector pensions and welfare benefits, and has announced a review of Local Government Finance to commence in January 2011. The Government has also announced that Council Tax Revaluation will be postponed until after 2015.
- 3.6. The interim report of the Independent Public Service Pensions Commission was issued on 7 October 2010 in time for the DCLG to incorporate elements into the Spending Review and the provisional Local Government Finance Settlement. The final report is due for publication by March 2011.
- 3.7. During the course of this budgeting period the results of the Census 2011 will become available and will be incorporated into the grant distribution formulae. The Office for National Statistics has now released the Mid 2009 estimated populations. The reduction for Wirral since the census 2001 is greater than for any other metropolitan or unitary authority. If this is confirmed in the Census 2011 then the reduction in grant receivable could be significant.

4. **BALANCES**

- 4.1. The budget for 2010-11 includes the minimum recommended balances of £6.5m.
- 4.2. The financial out-turn for 2009-10 was reported to Cabinet on 24 June 2010 and showed an overspending of £1,385,000 offset by increased investment income of £1,185,000 and a contribution from the Collection Fund of £515,000 to produce a net surplus of £315,000.
- 4.3. The Government has announced that the Personal Care at Home scheme will not be proceeding. The revenue budget for 2010-11 will therefore be reduced by £2.6m with a reduction of £1.6m in Area Based Grant.
- 4.4. The Government announced on 10 June 2010 that there would be the following grant reductions for 2010-11:-

	£000
Area Based Grant	3,927
LAA Reward Grant	1,400
Local Authority Business Growth Incentive	<u>200</u>
	5,527

Cabinet on 22 July 2010 agreed that the reduced Area Based Grant will be matched by reduced expenditure in 2010-11.

- 4.5. The Insurance Fund Annual Report was presented to Cabinet on 24 June 2010 including the transfer of £2,471,000 to General Fund balances.
- 4.6. Cabinet on 24 June 2010 agreed that additional VAT of £240,000 recovered from HM Revenue and Customs should be placed in balances.
- 4.7. Cabinet on 26 August 2010 agreed to continue to provide free swimming after the withdrawal of the Government grant of £0.2m in 2010-11.

- 4.8. Cabinet on 2 September 2010 agreed to transfer £3.4m from the Insurance Fund to General Fund Balances following the actuarial valuation of the Insurance Fund.
- 4.9. The regular review of balances including reserves and provisions was presented to Cabinet on 9 December 2010 to transfer £1.2m to balances.
- 4.10. The budget for 2010-11 provides for pay awards of 1% totalling £1.7m. No pay award has yet been offered.
- 4.11. The Cabinet has not agreed to any projected overspendings in 2010-11

	£m
4.12. Opening Balances	6.5
Out-Turn 2009-10	0.3
Personal Care at Home	1.0
LAA Reward Grant	- 1.4
LABGI	- 0.2
Insurance Fund	5.9
VAT	0.2
Free Swimming Grant	- 0.2
Reserves & Provisions	<u>1.2</u>
	13.3

5. SAVINGS

- 5.1. Cabinet on 9 December 2010 agreed a number of savings for 2011-12

	£m
EVR/Voluntary Severance	24.3
Change programme	10.7
Consultation exercise	0.7
Expenditure previously funded by ABG	3.9

The detailed impact of these savings on individual budgets together with the cost of any necessary restructurings is now being assessed.

- 5.2. These savings formed part of a total package of £48m which included reductions to some previously identified increased requirements. The balance of the package of £48m consisted of:-

	£m
Reducing the provision for price inflation to zero in 2011-12 (paragraph 2.1.)	4.2
Reducing the increase in pensions contributions following the Actuarial review of the Pension Fund (paragraph 2.3)	1.4
Transfer of reserves and provisions to General Fund Balances (paragraph 4.9)	1.2
Reduction in Council Tax Discounts for long term empty properties (reflected in Collection Fund)	1.6

- 5.3. These savings absorb some savings previously agreed by the Cabinet. However, the following savings remain:
- a. Cabinet on 15 October 2009 agreed to the implementation of an integrated Human Resources IT system with initial projected savings of £254,000 for 2011-12, £220,000 for 2012-13, £100,000 for 2013-14 and £20,000 for 2014-15.
 - b. Cabinet on 22 February 2010 agreed to the creation of an integrated transport unit with projected savings of £130,000 in 2011-12, £340,000 in 2012-13 and £250,000 in 2013-14.
 - c. Cabinet on 15 April 2010 agreed to investment in family group conferencing to deliver savings of £70,000 in 2011-12 and £130,000 in 2012-13.
 - d. Cabinet on 25 November 2010 agreed the Insurance Fund Budget for 2011-12 with a reduced requirement of £0.6m.

6. FINANCIAL IMPLICATIONS

- 6.1. The assumptions outlined above are reflected in the budget projections in the Appendix.
- 6.2. The currently projected surplus for 2011-12 is £3.3m and the projected shortfall for 2012-13 is £26.5m.

7. STAFFING IMPLICATIONS

- 7.1. There are none arising directly from this report.

8. EQUAL OPPORTUNITY IMPLICATIONS

- 8.1. There are none arising directly from this report.

9. COMMUNITY SAFETY IMPLICATIONS

- 9.1. There are none arising directly from this report.

10. HUMAN RIGHTS IMPLICATIONS

- 10.1. There are none arising directly from this report.

11. LOCAL AGENDA 21 IMPLICATIONS

- 11.1. There are none arising directly from this report.

12. PLANNING IMPLICATIONS

- 12.1. There are none arising directly from this report.

13. MEMBER SUPPORT IMPLICATIONS

13.1. There are none arising directly from this report.

14. BACKGROUND PAPERS

14.1. Formula Grant Settlement 2010-11 – DCLG – January 2010
Estimates 2010-11 – March 2010
Budget – HM Treasury – March 2010 and June 2010
Formula Grant Distribution – DCLG – July 2010
Independent Public Service Pensions Commission Interim Report – October 2010
Spending Review - HM Treasury - October 2010
Medium Term Financial Strategy 2011-14 – November 2010
Provisional Local Government Finance Settlement 2011-13 – DCLG – December 2010

15. RECOMMENDATION

15.1. That the budget projections be kept under review.

IAN COLEMAN
DIRECTOR OF FINANCE.

WIRRAL COUNCIL

BUDGET PROJECTIONS 2011-2013

	2011-12 £M	2012-13 £M
Base Budget	330.8	294.6
Increased Requirements		
Pay Inflation	1.0	1.0
Price Inflation	-	4.2
Capital Financing	2.3	1.9
Pension Fund	0.8	0.3
Waste Disposal	-1.0	1.4
Merseytravel	1.6	0.8
Private Finance Initiative	0.1	0.1
Benefits	2.4	2.4
Home Insulation	1.0	-
Guinea Gap	0.6	-
Leasowe Recreation Centre	0.6	-
Carbon Reduction Commitment	0.5	-
Swimming	0.3	-
Energy	0.3	-
Economy and Regeneration	2.1	-
Other Unavoidable Growth	1.0	1.0
Efficiency Investment	2.0	2.0
	<u>346.4</u>	<u>309.7</u>
Reduced Requirements		
Income Inflation	-1.0	-1.1
Benefits Subsidy	-2.2	-2.2
Working Neighbourhoods Fund	-9.3	
Adult Social Services Reform	-1.9	
Savings Agreed	<u>-40.7</u>	<u>-0.7</u>
	291.3	305.7
Resources		
Grants	158.8	144.7
Council Tax Grant	3.3	3.3
Council Tax	131.2	131.2
Collection Fund	<u>1.3</u>	<u>-</u>
Forecast Resources	294.6	279.2
(Shortfall)/Surplus	3.3	(26.5)