

PORTFOLIO HOLDER: Cllr E Woodburn
LEAD OFFICER: Brian Dinsdale, Interim Chief Executive
REPORT AUTHOR: Julie Crellin, Head of Finance and MIS

**REVISED MEDIUM TERM FINANCIAL STRATEGY - REVENUE
BUDGET 2010/11 – 2013/14**

Summary:

The purpose of this report is to provide Members with the revised Medium Term Revenue Budget 2010/11 – 2013/14, setting out the possible revenue budget gap for 2011/12 – 2013/14 which the Council will need to address as it prepares its Corporate Plan 2011/12 – 2013/14. The forecast revenue budget gap for 2013/14 is £2.788 million.

This report provides a financial framework for Corporate Planning for the next three year cycle 2011/12 – 2013/14.

Recommendations:

- a. RPWG to consider the revised Medium Term Revenue Budget 2010/11 – 2013/14 set out in Appendix A and the assumptions underpinning the planning scenarios.
- b. RPWG to agree the Revenue Budget Gap under Scenario 1 (Appendix A) which results in a £2.788million funding gap by 2013/14 as a basis for the identification of options to address the funding shortfall expected.
- c. Request Heads of Service to undertake Service Planning preparations to achieve the closure of the £2.788 million funding gap by 2013/14, in accordance with the overall timetable agreed by the Choosing to Change Board
- d. Request Heads of Service to review their current Revenue Budget 2010/11 and identify areas where expenditure could be delayed or deferred (with associated implications), which could provide some flexibility in addressing the budget shortfall in 2011/12. This analysis will be reported to the May meeting of Resources Planning Working Group.

1. INTRODUCTION

- 1.1. Council agreed the Council's Budget 2010/11 at its meeting of 2nd March 2010. The Revenue Budget report included the provisional revenue budgets for 2011/12 and 2012/13, based on the broad assumption of a 10% reduction in government revenue grant for these two years, together with estimates of inflationary pressures. This report updates the planning assumptions for one more year, 2013/14.
- 1.2. Council also agreed at its meeting on 2nd March to a revised Corporate Planning Framework as part of the Choosing to Change Programme. The report to Council set out a broad timetable for updating the Corporate Plan and the Corporate Planning Framework, and a more detailed timetable has now been agreed by the Choosing to Change Board.
- 1.3. Members will remember in the Revenue Budget report to Council, the Head of Finance and MIS stated the requirement for the Council to develop scenario planning options in readiness for the impending Comprehensive Spending Review 2010, (covering the period 2011/12 – 2013/14) as central government is expected to significantly reduce funding to Councils as it addresses the unprecedented levels of government borrowing. The Council has been using reserves to support its revenue spending programme over the last three years and the need to reduce the budget to meet (expected) base funding is well understood throughout the Council.
- 1.4. This report updates the medium term revenue financial position for the Council for the period 2011/12 to 2013/14 in accordance with the planning timetable agreed by Council on 2nd March and sets the financial context for the development of the Corporate Plan 2011/12 – 2013/14.

2. REVISED MEDIUM TERM REVENUE POSITION (2011/12 – 2013/14)

- 2.1 The Revenue Budget Report to Council in Appendix L set out the Council's potential budget requirement and possible government funding for 2011/12 and 2012/13 given the key assumption of a 10% reduction in government grant for both years and other expenditure assumptions such as 1% pay rises; 2% non-pay inflation; JE increments falling due as set out in the original JE analysis (May 2009) etc. In addition, the budget projections assumed the £200,000 of savings from actively managing staffing budgets (managed vacancies etc) continues over the period.

2.2 This high level budget analysis has been taken forward for 2013/14. The updated Medium Term Revenue Budget 2010/11 to 2013/14 is attached as Appendix A. The resultant shortfall in Revenue Budget (Scenario 1) for the three years in comparison to 2010/11 is as follows:-

- 2011/12 - £1.404 million
- 2012/13 - £2.578 million
- 2013/14 - £2.788 million

2.3 In addition, other potential scenarios (2 and 3) showing for example, variations in relation to inflation; RSG reduction remaining only at 10% and Area Based Grant not continuing; freezes to Council Tax increases etc have also been developed for illustrative purposes and to underline the **real uncertainty** surrounding how government will actually address the public sector borrowing requirement in the medium term. The scenarios increase this funding gap/budget shortfall to possibly £2.734 million in 2011/12; £3.409 million in 2012/13 and £3.854 million in 2013/14.

2.4 It is important to take an 'appropriateness check' in relation to these projections – as the shortfall of this magnitude in relation to the current net budget of £13.104 million (before use of reserves) will result in significant changes for the Council.

2.5 Appendix B is an extract of the Local Government Chronicle (18th March 2010) which outlines a grim forecast for District Council funding over the life of the next Comprehensive Spending Review. The article talks about by 2013/14, a £4.9 million reduction being required for a Council with a current £20 million budget requirement (i.e. 24.5% reduction) and if we consider our projection of £2.788 million shortfall by 2013/14, this equates to 21.3% of the current net revenue budget. Our planning assumptions, therefore, accord with the projected national position and are therefore considered to be reasonable at this stage.

2.6 Resources Planning Working Group at its meeting of 19th November 2009 discussed the methods and principles open to the Council to consider how to manage reduced budgetary resources and these were agreed in principle at the meeting and in no particular order of priority were:-

- a. Choosing not to fund specific pressures and accepting any consequential risks (on balance) as a budget is a best forecast of resource requirements at a point in time.
- b. Use of reserves, both risk-based and earmarked reserves to fund one-off extra-ordinary items or to mitigate risks and therefore, minimise need to allocate specific budget.

- c. Income generation and price increases, neighbouring councils have already taken steps to significantly raise prices and limit free-parking.
- d. Reviewing central costs to reduce expenditure.
- e. Passporting through of reductions in government grant support to services where applicable e.g. special grant for concessionary fares to consider.
- f. Focusing the budget on statutory services and reviewing the balance between development functions and core statutory services.
- g. External funding for nuclear related pressures to be sought.
- h. Review existing commitments against grant related earmarked reserves such as working neighbourhood funds and LABGI and redirecting resources if possible to support Council activity.

It is interesting to note the LGC Editorial talks about 'survival will require radical change' and lists methods such as innovative efficiencies, collaboration, including joint procurement, shared services and increased self reliance on the part of the citizen as ways to help meet some of the shortfall, however, the Editorial finishes with a stark message of 'less for less' in the future. There is no doubt that the Council faces a significant challenge over the coming months to balance its budget.

- 2.7 The Revenue Planning Gap has been allocated to Services on a straightforward basis of adjusted Net Budget 2010/11 to provide a guideline for the planning work, to get this started promptly and it is not intended as a definitive target. The allocation of the Revenue Planning Gap for each scenario is set out in Appendix C.
- 2.8 The adjustments take account of 'net credit' budgets where the logic would fall down (i.e. you can't make a pro-rata saving from a net credit budget); some items which are funded from reserves currently, and major irreducible items. The items funded from reserves currently but are assumed to be funded from base budget over the three year period are budget items of £200k for nuclear support; £100k for regeneration and £130k across all budgets. The latter two relate to assumptions in the 2008/09 base budget related to the use of £1million reserves for WNF activity where £770k was allocated to direct Regeneration Delivery Plan (WNF) project budgets.
- 2.9 The major budget irreducibles total £2.448 million and are set out in Appendix D. These are items where there is no management discretion to either amend how the service is provided or what the costs are and include added years pensions costs of existing pensioners;

concessionary fares; external interest and insurances; shared services commitments; the Copeland Centre and the Beacon.

- 2.10 In addition, service managers have considered other areas of the budget where there are contractual commitments and although not comprehensive, this indicates some restrictions in achieving cost reduction. These are attached as Appendix E. The contracts register may also help identify further commitments, but as most commitments are time limited, at the end of the CSR period there may be the opportunity to realise savings not possible in 2011/12.
- 2.11 The allocation of the Revenue Planning Gap to Services provides a framework for Heads of Services to use as they undertake service reviews between now and August, in readiness for the revision to the Corporate Plan 2011/12 – 2013/14. It is the intention that the service reviews will be supported externally, and the Choosing for Change Board has made a bid for additional resources to the NW IEP to fund external support.
- 2.12 It will be necessary for the Heads of Service to consider what services they can provide within the funding availability. However, there will be a degree of iteration required to prepare a balanced budget for 2013/14, balancing resourcing against priorities for the Council as a whole. The allocation is **not**, therefore, a target Service by Service, as flexibility in some areas of the budget to identify savings will be limited and only service reductions will be able to balance the budget. Also, the allocation on the basis of net budget provides some ‘shelter’ to those budgets which derive a large portion of funding from income, and it may also be necessary to review further areas of income generation over the summer for example, car parking and crematoria, taking forward the initial analysis provided by WLP to RPWG at its meeting in January.
- 2.13 The allocation therefore provides a **guideline** for Services to work towards in finding savings of £2.788 million by 1st April 2013 (to address the likely funding envelope for 2013/14).

3. CONCLUSION

- 3.1 The allocation of the Revenue Planning Gap to Services (Appendix C) provides a framework for Services as they undertake service reviews between now and August, in readiness for the revision to the Corporate Plan 2011/12 – 2013/14.
- 3.2 The allocation of the Revenue Planning Gap cannot, however, be seen as definitive target; it provides a basis for developing options to be

- 3.3 The Council will need to consider the options and implications for all Services; their interdependencies and how these match emerging Corporate priorities as the Corporate Plan emerges. There will be a degree of iteration required to prepare a balanced budget for 2013/14, balancing resourcing against priorities but ultimately, the allocation provides a **guideline** for Services in finding savings of £2.788 million by 1st April 2013 (to address the likely funding envelope for 2013/14).
- 3.4 To assist the Council in addressing the budget shortfall and the potential announcement of a Supplementary Budget Statement by the Chancellor after the (expected) May national elections, which might result in either more definitive or immediate reductions to local government funding, it would also be good practice for Heads of Service to consider where in the current revenue budget there may be flexibility to delay or defer revenue spending and outline the impact of this, to provide some headroom in addressing the projected budget shortfall in 2011/12. This analysis will be reported to the May meeting of Resources Planning Working Group and if appropriate, could be recommended to Executive to approve at their meeting in June, reflected in an adjustment to Service Revenue Budgets for the remainder of the year.

Julie Crellin
31st March 2010

Appendices:

Appendix A – Medium Term Revenue Projections 2010/11 to 2013/14

Appendix B – *'Districts stare into financial abyss.'*

Appendix C – Allocation of Planning Gap 2011/12 to 2013/14

Appendix D – Material Irreducible Items

Appendix E – Other Irreducible Items

	2010-11 £000s	2011-12 £000s	2012-13 £000s	2013-14 £000s
Scenario 1				
Approved Net Revenue Budget 2010-11	15,875	15,875	15,875	15,875
Existing MTFP items falling out:				
* Treasury Management (from 09-10 MTFS)		-82	-82	-82
* Welfare Benefits Officer		-35	-35	-35
* Support to LDF		-40	-40	-40
* Support to LDF (from PDG)		-180	-180	-180
* Regeneration Plan		-813	-1,140	-1,140
Carry forwards falling out		-691	-696	-696
Effect of 10% reduction specific grants		125	251	251
Inflation:				
* Pay at 1%		105	211	320
* Non pay at 2.0%		211	426	645
Actuarial review at 2%		153	153	153
Employers' NI 1% increase		66	66	66
Job Evaluation				
* Increments 2011-12		160	160	160
* Increments 2012-13		0	111	111
* Increments 2013-14				121
Cessation of non-recurring pressures:				
* RBS shared service redundancy provision		-119	-119	-119
* Treasury Management		-138	-138	-138
Full year effect of savings:				
* RBS shared services		-84	-84	-84
Provisional Net Revenue Budget	15,875	14,513	14,738	15,188
FUNDED BY:				
General Grants:				
* RSG/NNDR	7,222	6,500	5,778	5,778
* PFI Grant	837	837	837	837
* Area Based Grant	1,029	1,029	1,029	1,029
Total General Grants	9,088	8,366	7,644	7,644
Council Tax:				
* Council Tax Precept	4,008	4,126	4,237	4,356
* Council Tax Surplus	8	0	0	0
Total Council Tax	4,016	4,126	4,237	4,356
Use of Reserves:				
* To support MTFP	2,075	427	0	0
* To support carry forwards	696	5	0	0
* Workforce Strategy	0	184	279	400
Total Reserves	2,771	617	279	400
Total Funding	15,875	13,108	12,160	12,400
BUDGET GAP	0	1,404	2,578	2,788

	2010-11 £000s	2011-12 £000s	2012-13 £000s	2013-14 £000s
SENSITIVITIES				
Scenario 2				
As Scenario 1 except:				
Actuarial Review at 3% rather than 2% - a further		77	78	79
Non-pay inflation at 3% rather than 2% - a further		105	216	332
Illustrative effect of freeze in Council Tax		118	229	348
BUDGET GAP	0	1,705	3,102	3,547
Scenario 3				
As Scenario 2 except:				
Assume RSG reduction of 10% in 2011/12 only - gain of		0	-722	-722
BUT assume Area Based Grant (principally WNF) ceases		1,029	1,029	1,029
BUDGET GAP	0	2,734	3,409	3,854

	2010-11 £000s	2011-12 £000s	2012-13 £000s	2013-14 £000s
RESERVES STRATEGY SUMMARY				
General Fund Balances- Opening Balance	-2,470	-2,082	-2,082	-2,082
Use of General Fund Balances	388	0	0	0
General Fund Balances - Closing Balances	-2,082	-2,082	-2,082	-2,082
Earmarked Reserves - Opening Balance	-5,160	-2,777	-2,161	-1,882
Transfer from General Fund Balances				
Utilised in Year	2,383	617	279	400
Earmarked Reserves - Closing Balances	-2,777	-2,161	-1,882	-1,482
TOTAL RESERVES	-4,859	-4,242	-3,963	-3,563

	Draft 2010/2011 Budget £000s	Use of reserves for 'base' spend £000s	Adjust credit budgets to positive '(income' target) £000s	Less material irreducible items £000s	Adjusted 2010/2011 Budget £000s	ILLUSTRATIVE SAVINGS:													
						SCENARIO 1			SCENARIO 2			SCENARIO 3							
						2011-12 £000s	2012-13 £000s	2013-14 £000s	2011-12 £000s	2012-13 £000s	2013-14 £000s	2011-12 £000s	2012-13 £000s	2013-14 £000s					
Chief Executives																			
Chief Executives	117	130	0	(125)	122	(15)	(27)	(29)	(18)	(33)	(37)	(29)	(36)	(41)					
Total - Chief Executives	117	130	0	(125)	122	(15)	(27)	(29)	(18)	(33)	(37)	(29)	(36)	(41)					
Customer Services																			
Customer Services	606		0	0	606	(73)	(135)	(146)	(89)	(162)	(185)	(143)	(178)	(201)					
Revenues & Benefits	(81)		0	81	(0)	0	0	0	0	0	0	0	0	0					
Total - Customer Services	524	0	0	81	606	(73)	(135)	(146)	(89)	(162)	(185)	(143)	(178)	(201)					
Finance and Management Information Systems																			
Accountancy Services	525		0	0	525	(64)	(117)	(126)	(77)	(140)	(161)	(124)	(154)	(175)					
Concessionary Fares, Insurance & Treasury Management	787		0	(654)	133	(16)	(30)	(32)	(20)	(36)	(41)	(31)	(39)	(44)					
Audit & Fraud Prevention	219		0	(219)	(1)	0	0	0	0	0	0	0	0	0					
Management Information Systems	572		0	0	572	(69)	(127)	(138)	(84)	(153)	(175)	(135)	(168)	(190)					
Total - Finance and MIS	2,102	0	0	(873)	1,229	(149)	(273)	(296)	(181)	(329)	(376)	(290)	(362)	(409)					
Legal & Democratic Services																			
Democratic Services	355		0	0	355	(43)	(79)	(85)	(52)	(95)	(109)	(84)	(104)	(118)					
Elections	62		0	0	62	(8)	(14)	(15)	(9)	(17)	(19)	(15)	(18)	(21)					
Emergency Planning	20		0	0	20	(2)	(4)	(5)	(3)	(5)	(6)	(5)	(6)	(7)					
Land Charges	(58)	115	0	0	58	(7)	(13)	(14)	(8)	(15)	(18)	(14)	(17)	(19)					
Legal Services	638		0	0	638	(77)	(142)	(154)	(94)	(171)	(195)	(151)	(188)	(212)					
Licensing	(109)	218	0	0	109	(13)	(24)	(26)	(16)	(29)	(33)	(26)	(32)	(36)					
Total - Legal	908	0	333	0	1,242	(151)	(276)	(299)	(183)	(332)	(380)	(293)	(365)	(413)					
Policy & Performance																			
Communications	105		0	0	105	(13)	(23)	(25)	(15)	(28)	(32)	(25)	(31)	(35)					
Human Resources	485		0	0	485	(59)	(108)	(117)	(71)	(130)	(149)	(115)	(143)	(161)					
Policy & Performance	160		0	0	160	(19)	(36)	(39)	(24)	(43)	(49)	(38)	(47)	(53)					
Performance Improvement Team	228		0	0	228	(28)	(51)	(55)	(34)	(61)	(70)	(54)	(67)	(76)					
Total - Policy & Performance	979	0	0	0	979	(119)	(218)	(235)	(144)	(262)	(300)	(231)	(288)	(325)					
Development Strategy																			
Housing	294		0	0	294	(36)	(65)	(71)	(43)	(79)	(90)	(69)	(86)	(98)					
Economic Development	276		0	0	276	(33)	(61)	(66)	(41)	(74)	(85)	(65)	(81)	(92)					
Planning Policy	127	100	0	0	227	(27)	(50)	(55)	(33)	(61)	(69)	(53)	(67)	(75)					
Development Strategy - Incl. Regeneration Delivery Plan	451	200	0	0	651	(79)	(145)	(157)	(96)	(174)	(199)	(154)	(192)	(217)					
Corporate Director Economic Prosperity & Sustainability	104		0	0	104	(13)	(23)	(25)	(15)	(28)	(32)	(24)	(31)	(34)					
Total - Development Strategy	1,252	300	0	0	1,552	(188)	(345)	(373)	(228)	(415)	(475)	(366)	(457)	(516)					
Development Operations																			
Development Operations	80		0	0	80	(10)	(18)	(19)	(12)	(22)	(25)	(19)	(24)	(27)					
Admin Buildings	1,082		24	(1,093)	12	(1)	(3)	(3)	(2)	(3)	(4)	(3)	(3)	(4)					
Beacon & TIC	438		0	(438)	(0)	0	0	0	0	0	0	0	0	0					
Building Control	103		0	0	103	(12)	(23)	(25)	(15)	(28)	(31)	(24)	(30)	(34)					
Planning	177		0	0	177	(21)	(39)	(43)	(26)	(47)	(54)	(42)	(52)	(59)					
Property	243		0	0	243	(29)	(54)	(58)	(36)	(65)	(74)	(57)	(71)	(81)					
Public Buildings	287		0	0	287	(35)	(64)	(69)	(42)	(77)	(88)	(68)	(84)	(95)					
Procurement	42		0	0	42	(5)	(9)	(10)	(6)	(11)	(13)	(10)	(12)	(14)					
Total - Development Operations	2,450	0	24	(1,531)	943	(114)	(210)	(227)	(139)	(252)	(289)	(223)	(277)	(314)					
Leisure & Environmental Services																			
Cultural Services	968		0	0	968	(117)	(215)	(233)	(142)	(259)	(296)	(228)	(285)	(322)					
Enforcement	(72)	144	0	0	72	(9)	(16)	(17)	(11)	(19)	(22)	(17)	(21)	(24)					
Environmental Health	714		0	0	714	(87)	(159)	(172)	(105)	(191)	(219)	(169)	(210)	(238)					
Leisure & Environmental	361		0	0	361	(44)	(80)	(87)	(53)	(97)	(110)	(85)	(106)	(120)					
Open Spaces	928		0	0	928	(112)	(206)	(223)	(137)	(248)	(284)	(219)	(273)	(309)					
Waste Services	1,873		0	0	1,873	(227)	(417)	(451)	(276)	(501)	(573)	(442)	(551)	(623)					
Total - Leisure & Environmental Services	4,772	0	144	0	4,916	(596)	(1,094)	(1,183)	(723)	(1,316)	(1,505)	(1,160)	(1,446)	(1,635)					
GRAND TOTAL	13,104	430	501	(2,448)	11,587	(1,404)	(2,578)	(2,788)	(1,705)	(3,102)	(3,547)	(2,734)	(3,409)	(3,854)					

SERVICE	ITEM	£	NOTE
Chief Executives Chief Executives	Pension added years	125,300	This is committed to meet costs of existing pensions.
Total - Chief Executives		125,300	
Customer Services Customer Services Revenues & Benefits	Revenue and Benefits	(81,435)	Budget committed to Revenue and Benefits shared service. Savings from RBS shared service included in budget projections. Medium Term projection includes full year effect of savings. Benefit payments are statutory and grant income is linked to statutory payments.
Total - Customer Services		(81,435)	
Finance and Management Information Systems Accountancy Services Concessionary Fares, Insurance & Treasury Management	Statutory Concessionary Fares External Interest and investments	536,435 (166,718)	Scheme is statutory and demand-led. This figure is adjusted to exclude the discretionary scheme. Interest and investment returns are largely driven by rates on financial markets, so these budgets do not lend themselves to a simple percentage reduction. The medium term strategy already assumes investment rates increase to offset pressures in 2009-10 and 2010-11.
	Insurances	283,867	Insurances have just been retendered and savings included in the current budget. Savings would be contingent on reductions in the scale of the Council's activities.
Audit & Fraud Prevention	Audit	126,981	The budget is earmarked for Copeland BC's contribution to the audit shared service. Exact implications are subject to finalisation of the agreement.
	Fraud	92,365	The budget is earmarked for Copeland BC's contribution to the Revenue and Benefits shared service. Savings from RBS shared services have been included in base budget projections.
Management Information Systems			
Total - Finance and MIS		872,930	
Legal & Democratic Services Democratic Services Elections Emergency Planning Land Charges Legal Services Licensing			
Total - Legal		0	
Policy & Performance Communications Human Resources Policy & Performance Performance Improvement Team			
Total - Policy & Performance		0	
Development Strategy Housing Economic Development Planning Policy Development Strategy - Incl. Regeneration Delivery Plan Corporate Director Economic Prosperity & Sustainability			
Total - Development Strategy		0	
Development Operations Development Operations Admin Buildings	Copeland Centre	1,093,470	Costs are committed under the PFI contract. If the scale of the Council's activities was substantially reduced there could be scope to achieve rental income from surplus accommodation.
Beacon & TIC		437,545	May be scope for savings or additional income but the requirements of the business plan mean a large pro rata reduction is unlikely to be achievable.
Building Control Planning Property Public Buildings Procurement			
Total - Development Operations		1,531,015	
Leisure & Environmental Services Cultural Services Enforcement Environmental Health Leisure & Environmental Open Spaces Waste Services			
Total - Leisure & Environmental Services		0	
TOTAL MATERIAL IRREDUCABLE ITEMS		2,447,810	

Agenda Finance: bridging the funding gap

Each week LGC's four Agenda sections each focus on a key topic, providing news, comment, analysis and best practice. Email the news desk on lgcnews@emap.com

LGC's agenda

- 2 HR: ROLE IN TRANSFORMATION 18-21
- 3 PAY: 'BOOMERANG BOSSES' 22-23
- 4 FUNDING: ADULT SOCIAL CARE 24-25

EMMA MAIER EDITOR

Falling income and rising expenditure inevitably affects district councils more severely than their first-tier counterparts. But research by Deloitte for the Society of District Council Treasurers, seen by LGC, provides a stark focus. Its worst-case scenario puts the funding gap at £1.6bn by 2013-14, or 16% of district councils' £10bn

expenditure in 2008-09. Survival will require radical change. There is little appetite for further reorganisation, so the onus will be on councils. Efficiencies will be vital but will have to be teamed with innovation – as stressed by today's thoughtful Young Foundation report (see overleaf).

Collaboration will be important, including joint procurement, shared services – though, as the recent collapses in Buckinghamshire and south-east Wales illustrate, the challenges can't be underestimated – as well as shared senior staff, as pioneered by the likes of South Oxfordshire and Vale of White Horse DCs. Some suggest councils may be reduced to commissioning units.

Beyond this, the very relationship between citizen and their councils must be re-examined. From sorting recycling to pavement gritting, citizens will need to play a more active role in their own services – posing a significant behaviour-change challenge for councils.

But ultimately, there is a limit to the amount that can be achieved with diminishing funds and growing demand. Local politicians will soon have to grasp the nettle of 'less for less'.

Clearly, some districts are worse affected than others, but for all, survival will require radical change



£1.6bn
Districts face looming deficits

Districts stare into financial abyss

NEWS Report outlines scale of cost pressures ahead

LGC Exclusive

James Illman
james.illman@emap.com

England's lower-tier authorities are facing funding deficits of up to £1.6bn per year, according to council-commissioned research obtained by LGC.

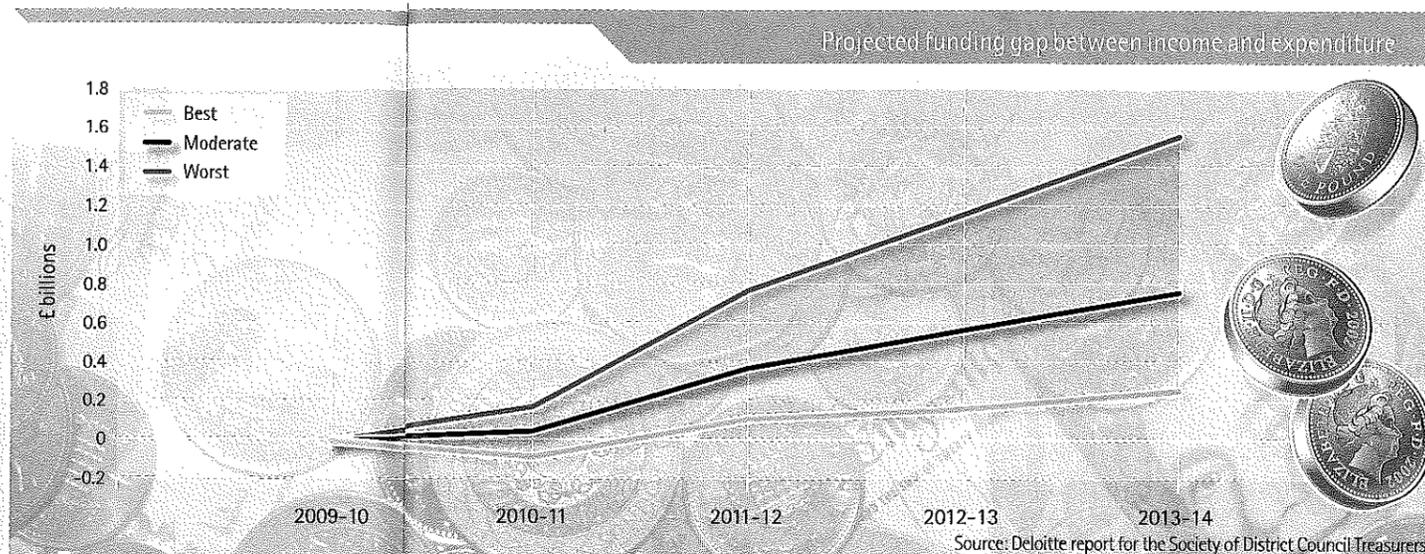
A report drawn up for the Society of District Council Treasurers (SDCT) by consultancy Deloitte and due to be published later this year paints a range of funding scenarios that show the huge task ahead for districts and will surely raise questions about their viability.

The projections show a 'worst-case scenario' in which districts face an annual funding gap of £1.6bn by 2013-14 as a result of falling income and rising expenditure. Even more worryingly, the scenarios do not take account of service pressures such as bringing housing stock up to acceptable standards or the need to spend more on recycling.

Even the "moderate" projection outlined in the study would mean districts plugging an £800m hole per year by 2013-14 – a substantial chunk of the £10bn of total district council expenditure.

Under this scenario, a council with a £15m budget requirement in 2009-10 would need to find £3.68m savings from its 2013-14 budget, the study said.

The best-case scenario projected a funding gap of



District council services are unlikely to be protected, but they are vital for the wellbeing of a local area
Grahame Lucas, president, Society of District Council Treasurers

£200m per year, although finance chiefs privately concede this figure is optimistic.

Tony Travers, director of the Greater London Group at the London School of Economics, said the worst-case scenario numbers seemed plausible and that districts would feel the downturn more than other parts of local government.

"Districts do not have any of the services which politicians are lining up to protect or those, like children's services or services for the elderly, which have a high public profile," he said. "They have no friends and no protection, so they are likely to feel the full force of the cuts."

The research follows other reports raising district councils as an area of concern, such as the Audit Commission's broadside on their finance capabilities in the wake of the Icelandic banking crisis (www.lgcplus.com/2012002.article).

The SDCT stressed the work was "still in progress" and that the numbers would

15%

Annual increase in council tax needed to bridge an £800m gap, under moderate scenario

£4.9m

Cut needed, under moderate scenario, for a district with a £20m budget requirement

16%

Estimated fall in levels of unallocated reserves held by district councils in 2009-10

£10bn

Total public expenditure managed by districts in 2008-09

not be finalised until late May but accepted the findings had serious implications for district council finances.

SDCT president Grahame Lucas said: "District council services are unlikely to be protected, but they are vitally important for the wellbeing of the local area. It is essential that we work together to ensure we can sustain these essential local services."

Districts are overwhelmingly reliant on interest generated from reserves as a major income stream, so have suffered disproportionately from the rock-bottom interest rates brought about by the recession.

According to the latest estimates submitted to the Department for Communities & Local Government, district councils' unallocated reserves for 2009-10 will be £492m – 16% down on the 2008-09 level, the Deloitte research said.

Lincolnshire CC chief executive Tony McArdle said the scale of the financial pressures would make it eco-

Those are huge figures when you consider the relative size of district councils
Tim Palmer, Dorset CC

District councils have no friends and no protection so they are likely to feel the full force of the cuts
Tony Travers, director, Greater London Group, London School of Economics

nominally unrealistic for districts to deliver services.

"I am a fan of district councils but their viability will be called into question if they do not change how they operate," said Mr McArdle, a former chief executive of Wellingborough BC.

Mr McArdle's suggested service provision could be outsourced to neighbouring districts, a county council or the private sector. A small team of policy and business support officers, perhaps 11 or 12 in a small district, would advise members on outsourcing options and maintain districts as "local democratic decision-making entities".

Tim Palmer (Con), who sits on both Dorset CC and East Dorset DC, said: "That proportion of budget reduction [in the Deloitte report] has been discussed in my district and others around us. Everyone recognises that the gap is extremely serious."

"Those are huge figures when you consider the relative size of district councils."

	Draft 2010/2011 Budget £000s	Use of reserves for 'base' spend £000s	Adjust credit budgets to positive '(income' target) £000s	Less material irreducible items £000s	Adjusted 2010/2011 Budget £000s	ILLUSTRATIVE SAVINGS:													
						SCENARIO 1			SCENARIO 2			SCENARIO 3							
						2011-12 £000s	2012-13 £000s	2013-14 £000s	2011-12 £000s	2012-13 £000s	2013-14 £000s	2011-12 £000s	2012-13 £000s	2013-14 £000s					
Chief Executives																			
Chief Executives	117	130	0	(125)	122	(15)	(27)	(29)	(18)	(33)	(37)	(29)	(36)	(41)					
Total - Chief Executives	117	130	0	(125)	122	(15)	(27)	(29)	(18)	(33)	(37)	(29)	(36)	(41)					
Customer Services																			
Customer Services	606		0	0	606	(73)	(135)	(146)	(89)	(162)	(185)	(143)	(178)	(201)					
Revenues & Benefits	(81)		0	81	(0)	0	0	0	0	0	0	0	0	0					
Total - Customer Services	524	0	0	81	606	(73)	(135)	(146)	(89)	(162)	(185)	(143)	(178)	(201)					
Finance and Management Information Systems																			
Accountancy Services	525		0	0	525	(64)	(117)	(126)	(77)	(140)	(161)	(124)	(154)	(175)					
Concessionary Fares, Insurance & Treasury Management	787		0	(654)	133	(16)	(30)	(32)	(20)	(36)	(41)	(31)	(39)	(44)					
Audit & Fraud Prevention	219		0	(219)	(1)	0	0	0	0	0	0	0	0	0					
Management Information Systems	572		0	0	572	(69)	(127)	(138)	(84)	(153)	(175)	(135)	(168)	(190)					
Total - Finance and MIS	2,102	0	0	(873)	1,229	(149)	(273)	(296)	(181)	(329)	(376)	(290)	(362)	(409)					
Legal & Democratic Services																			
Democratic Services	355		0	0	355	(43)	(79)	(85)	(52)	(95)	(109)	(84)	(104)	(118)					
Elections	62		0	0	62	(8)	(14)	(15)	(9)	(17)	(19)	(15)	(18)	(21)					
Emergency Planning	20		0	0	20	(2)	(4)	(5)	(3)	(5)	(6)	(5)	(6)	(7)					
Land Charges	(58)	115	0	0	58	(7)	(13)	(14)	(8)	(15)	(18)	(14)	(17)	(19)					
Legal Services	638		0	0	638	(77)	(142)	(154)	(94)	(171)	(195)	(151)	(188)	(212)					
Licensing	(109)		218	0	109	(13)	(24)	(26)	(16)	(29)	(33)	(26)	(32)	(36)					
Total - Legal	908	0	333	0	1,242	(151)	(276)	(299)	(183)	(332)	(380)	(293)	(365)	(413)					
Policy & Performance																			
Communications	105		0	0	105	(13)	(23)	(25)	(15)	(28)	(32)	(25)	(31)	(35)					
Human Resources	485		0	0	485	(59)	(108)	(117)	(71)	(130)	(149)	(115)	(143)	(161)					
Policy & Performance	160		0	0	160	(19)	(36)	(39)	(24)	(43)	(49)	(38)	(47)	(53)					
Performance Improvement Team	228		0	0	228	(28)	(51)	(55)	(34)	(61)	(70)	(54)	(67)	(76)					
Total - Policy & Performance	979	0	0	0	979	(119)	(218)	(235)	(144)	(262)	(300)	(231)	(288)	(325)					
Development Strategy																			
Housing	294		0	0	294	(36)	(65)	(71)	(43)	(79)	(90)	(69)	(86)	(98)					
Economic Development	276		0	0	276	(33)	(61)	(66)	(41)	(74)	(85)	(65)	(81)	(92)					
Planning Policy	127	100	0	0	227	(27)	(50)	(55)	(33)	(61)	(69)	(53)	(67)	(75)					
Development Strategy - Incl. Regeneration Delivery Plan	451	200	0	0	651	(79)	(145)	(157)	(96)	(174)	(199)	(154)	(192)	(217)					
Corporate Director Economic Prosperity & Sustainability	104		0	0	104	(13)	(23)	(25)	(15)	(28)	(32)	(24)	(31)	(34)					
Total - Development Strategy	1,252	300	0	0	1,552	(188)	(345)	(373)	(228)	(415)	(475)	(366)	(457)	(516)					
Development Operations																			
Development Operations	80		0	0	80	(10)	(18)	(19)	(12)	(22)	(25)	(19)	(24)	(27)					
Admin Buildings	1,082		24	(1,093)	12	(1)	(3)	(3)	(2)	(3)	(4)	(3)	(3)	(4)					
Beacon & TIC	438		0	(438)	(0)	0	0	0	0	0	0	0	0	0					
Building Control	103		0	0	103	(12)	(23)	(25)	(15)	(28)	(31)	(24)	(30)	(34)					
Planning	177		0	0	177	(21)	(39)	(43)	(26)	(47)	(54)	(42)	(52)	(59)					
Property	243		0	0	243	(29)	(54)	(58)	(36)	(65)	(74)	(57)	(71)	(81)					
Public Buildings	287		0	0	287	(35)	(64)	(69)	(42)	(77)	(88)	(68)	(84)	(95)					
Procurement	42		0	0	42	(5)	(9)	(10)	(6)	(11)	(13)	(10)	(12)	(14)					
Total - Development Operations	2,450	0	24	(1,531)	943	(114)	(210)	(227)	(139)	(252)	(289)	(223)	(277)	(314)					
Leisure & Environmental Services																			
Cultural Services	968		0	0	968	(117)	(215)	(233)	(142)	(259)	(296)	(228)	(285)	(322)					
Enforcement	(72)		144	0	72	(9)	(16)	(17)	(11)	(19)	(22)	(17)	(21)	(24)					
Environmental Health	714		0	0	714	(87)	(159)	(172)	(105)	(191)	(219)	(169)	(210)	(238)					
Leisure & Environmental	361		0	0	361	(44)	(80)	(87)	(53)	(97)	(110)	(85)	(106)	(120)					
Open Spaces	928		0	0	928	(112)	(206)	(223)	(137)	(248)	(284)	(219)	(273)	(309)					
Waste Services	1,873		0	0	1,873	(227)	(417)	(451)	(276)	(501)	(573)	(442)	(551)	(623)					
Total - Leisure & Environmental Services	4,772	0	144	0	4,916	(596)	(1,094)	(1,183)	(723)	(1,316)	(1,505)	(1,160)	(1,446)	(1,635)					
GRAND TOTAL	13,104	430	501	(2,448)	11,587	(1,404)	(2,578)	(2,788)	(1,705)	(3,102)	(3,547)	(2,734)	(3,409)	(3,854)					

SERVICE	ITEM	£	NOTE
Chief Executives Chief Executives	Pension added years	125,300	This is committed to meet costs of existing pensions.
Total - Chief Executives		125,300	
Customer Services Customer Services Revenues & Benefits	Revenue and Benefits	(81,435)	Budget committed to Revenue and Benefits shared service. Savings from RBS shared service included in budget projections. Medium Term projection includes full year effect of savings. Benefit payments are statutory and grant income is linked to statutory payments.
Total - Customer Services		(81,435)	
Finance and Management Information Systems Accountancy Services Concessionary Fares, Insurance & Treasury Management	Statutory Concessionary Fares External Interest and investments	536,435 (166,718)	Scheme is statutory and demand-led. This figure is adjusted to exclude the discretionary scheme. Interest and investment returns are largely driven by rates on financial markets, so these budgets do not lend themselves to a simple percentage reduction. The medium term strategy already assumes investment rates increase to offset pressures in 2009-10 and 2010-11.
	Insurances	283,867	Insurances have just been retendered and savings included in the current budget. Savings would be contingent on reductions in the scale of the Council's activities.
Audit & Fraud Prevention	Audit	126,981	The budget is earmarked for Copeland BC's contribution to the audit shared service. Exact implications are subject to finalisation of the agreement.
	Fraud	92,365	The budget is earmarked for Copeland BC's contribution to the Revenue and Benefits shared service. Savings from RBS shared services have been included in base budget projections.
Management Information Systems			
Total - Finance and MIS		872,930	
Legal & Democratic Services Democratic Services Elections Emergency Planning Land Charges Legal Services Licensing			
Total - Legal		0	
Policy & Performance Communications Human Resources Policy & Performance Performance Improvement Team			
Total - Policy & Performance		0	
Development Strategy Housing Economic Development Planning Policy Development Strategy - Incl. Regeneration Delivery Plan Corporate Director Economic Prosperity & Sustainability			
Total - Development Strategy		0	
Development Operations Development Operations Admin Buildings	Copeland Centre	1,093,470	Costs are committed under the PFI contract. If the scale of the Council's activities was substantially reduced there could be scope to achieve rental income from surplus accommodation.
Beacon & TIC		437,545	May be scope for savings or additional income but the requirements of the business plan mean a large pro rata reduction is unlikely to be achievable.
Building Control Planning Property Public Buildings Procurement			
Total - Development Operations		1,531,015	
Leisure & Environmental Services Cultural Services Enforcement Environmental Health Leisure & Environmental Open Spaces Waste Services			
Total - Leisure & Environmental Services		0	
TOTAL MATERIAL IRREDUCABLE ITEMS		2,447,810	

Chief Executives			
Chief Executives			
Total - Chief Executives		0	
Customer Services			
Customer Services	CGI-CRM Support and maintenance	7,000	
	Civica support and maintenance	23,584	
	Securitas	22,000	cash collection related security
	Loomis	4,500	Cash collection
Total - Customer Services		57,084	
Finance and Management Information Systems			
Accountancy Services			
Concessionary Fares, Insurance & Treasury Management			
Audit & Fraud Prevention			
Management Information Systems			
Total - Finance and MIS		0	
Legal & Democratic Services			
Democratic Services			
Elections	Software licenses	8,500	Elections software licences
	Canvassers fees	16,671	Costs of assembling electoral register
Emergency Planning			
Land Charges			
Legal Services	Software licenses	5,235	For Land and Property Gazetteer
Licensing	Software licenses	8,700	Licensing software licences
	Photocopier contract		Budgets spread across departments
Total - Legal		39,106	
Policy & Performance			
Communications	Website licensing	15,000	
	Copeland Matters	15,500	
Human Resources	PWA licensing	6,000	
	Medical fees	15,000	Scope for saving is dependent on employee numbers
Policy & Performance	GIS licensing	22,000	
Performance Improvement Team	CoValent licensing	7,500	
Total - Policy & Performance		81,000	
Development Strategy			
Housing			
Economic Development			
Planning Policy			
Development Strategy - Incl. Regeneration			
Delivery Plan			
Corporate Director Economic Prosperity & Sustainability			
Total - Development Strategy		0	
Development Operations			
Development Operations			
Admin Buildings			
Beacon & TIC			
Building Control			
Planning			
Property			
Public Buildings			
Procurement			
Total - Development Operations		0	
Leisure & Environmental Services			
Cultural Services			
Enforcement			
Environmental Health			
Leisure & Environmental			
Open Spaces			
Waste Services			
Total - Leisure & Environmental Services		0	