

FINANCIAL STRATEGY

(Report by the Corporate Director – Commerce and Technology)

1 PURPOSE

- 1.1 The purpose of this report is to facilitate discussion of the Council's Financial Strategy and obtain the Cabinet's proposals on key aspects. The report will also be considered by the Overview and Scrutiny Panel (Planning and Finance) on 9 September and Cabinet will have the opportunity to consider their comments on 11 September prior to finalising their own recommendations to Council (24 September).

2 BACKGROUND

- 2.1 The Council is debt-free and currently has high levels of revenue and capital reserves which provide significant financial flexibility. It is therefore important that the use of reserves is considered as part of a long-term strategy to achieve its Community and Corporate Strategies. Changes to the way in which the Government controls local authority borrowing are also expected before April next year and in return for greater freedom these will require a "prudential" approach that requires the Council to understand the cost and Council Tax implications of any proposed borrowing it intends over the following three years.
- 2.2 Last September the Council approved a strategy for the 2003-08 MTP based on a report which included a graph showing the Council Tax implications of the significant increase in service spending proposed by the Cabinet. This graph was based on the following budget/financing assumptions.

	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011
	£M	£M	£M	£M	£M	£M	£M	£M
Budget	13.8	15.8	17.0	18.4	19.5	21.0	22.5	24.2
Total Funding	13.6	14.0	14.4	14.9	15.3	15.8	16.3	18.5
Use of reserves	0.2	1.8	2.6	3.5	4.2	5.2	6.2	5.6

	£	£	£	£	£	£	£	£
Council Tax	85.43	88.42	91.51	94.72	98.03	101.46	105.01	137.57
Increase %	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	31.0%

.....followed by a 72% increase in 2011/12

- 2.3 December Council approved the draft plan but also asked Cabinet to investigate whether Council Tax levels could be maintained at existing levels for 2003/04 and 2004/05 in the light of the increase in Government Support. On the 9 January 2003 Cabinet received a graph showing the implications of the spending levels approved by Council, before additional Government Support, which was based on the following data.

	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011
	£M	£M	£M	£M	£M	£M	£M	£M
Budget	15.1	16.8	17.6	18.7	19.8	21.3	22.8	24.5
Total Funding	13.7	14.1	14.6	15.0	15.5	16.0	16.5	22.4
Use of reserves	1.4	2.6	3.0	3.7	4.3	5.3	6.4	2.1

	£	£	£	£	£	£	£	£
Increase %	85.43	88.42	91.51	94.72	98.04	101.46	105.01	200.58
	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	91.0%

n.b. the forecast model has some rounding differences to the figures reported to Council

2.4 The final budget approved by February Council included three significant changes from the December report:

- additional spending in excess of the forecast increase in Revenue Support
- lower Council Tax increases
- the correction of a technical error relating to the commutation adjustment

2.5 The table below shows the resulting figures, including the three years beyond the MTP period to 2007/08 that was reported at the time.

	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011
	£M	£M	£M	£M	£M	£M	£M	£M
Budget	15.8	17.6	18.5	19.8	20.9	22.4	23.9	24.9
Total Funding	14.0	14.7	15.4	16.2	17.0	17.8	23.9	24.7
Use of reserves	1.8	2.9	3.1	3.6	3.9	4.6	0	0.2

	£	£	£	£	£	£	£	£
Council Tax	82.54	82.54	84.60	86.72	88.89	97.78	197.51	211.33
Increase %	0%	0%	2.5%	2.5%	2.5%	10.0%	102.0%	7.0%

3. CONTEXT

3.1 Huntingdonshire District Council's Council Tax for the year 2003/04 was:

- in the lowest 4% of Council Tax levels for all Shire Districts in England (Range £53 to £256, Average £129)
- 8.3% of the total Council Tax bill* for Huntingdonshire residents (i.e. If the Council were to double the District Council Tax it would result in an 8.3% increase in the total bill).

* The total Council Tax bill includes the amounts set by the County Council, the Police Authority and Town or Parish Councils in addition to this Council's charge.

4. UPDATING LAST YEAR'S BUDGET

- 4.1 Some of the elements of the Council's finances are broadly outside of its control. Examples include take-up of services, inflation, interest rates and Government Support. Other elements are variable, such as service delivery variations and the balance between funding from Reserves and funding from the Council Tax.
- 4.2 The Financial Strategy is a longer-term view and within that time frame many of the assumptions, on which the Strategy is based, will turn out to be inaccurate. This is especially true as local government exists in a dynamic environment of political change, both local and national, and increasing customer expectations. Because of the uncertainties, the existence of a strategy becomes more important as each time there is a significant change the impact on the Council's plan can be identified.
- 4.3 The first step in the process is to review the assumptions that were included in the approved MTP that are outside the Council's control. A number of adjustments need to be made:
- A potential increase in employer's pension contribution rates from April 2005 due to recent downturns in equity markets. A rise from 8.3% to 10.8% has been assumed but it could easily be higher. The actual figure is unlikely to be known before, at least, November 2004 although it may be possible to be a little more certain in next year's strategy.
 - Lower interest rate expectations (4% this year and 4.5% next instead of 4.25% and 4.75% respectively)
 - A change in Government guidance on interpreting the detailed rules relating to the commutation adjustment. This significantly reduces the amount of capital reserves that can be treated as revenue income.
 - Adjustments for inflation (2.5% for general price increases), the level of capital receipts and the 2002/3 outturn.
 - It is also possible that our assumption as to the speed with which the Council will get its additional Government Support (spread over four years) may be optimistic, but this is only based on rumour at this stage pending any Government announcement on "floors and ceilings" for next year. No adjustment has therefore been made at the present time.
- 4.4 The next step is to consider any provision for service variations beyond the level to March 2008 agreed in the MTP. It has been assumed that, given the financial position the Council will be facing in the coming years, that there should be no additional provision for revenue developments and £3.5M per year for capital investment (at current prices). No allowance has been made for unavoidable additional costs other than the Contingency Reserve agreed as part of last year's budget. It has been assumed that any additional items that do not meet the criteria for the reserve would be funded from savings.

- 4.5 The final element is the balance between the use of Reserves and increases in Council Tax. This is based on the Council's current policy of having no increase in Council Tax in 2004/05 and then restricting increases to 2.5% for as long as possible.
- 4.6 The table below summarises the resulting position after the items in this section are taken into account. It shows that large Council Tax rises might be necessary in 2008/09. Additional data and a graph showing the Council Tax rises that result over the longer term are provided in Annex A.

	2003/ 2004	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011
Budget (£M)	16.2	18.2	19.7	21.1	22.7	24.0	25.3	26.5
Council Tax	£82.54	£82.54	£84.60	£86.72	£88.89	£206.22	£220.65	£236.10
Increase %	0%	0%	2.5%	2.5%	2.5%	132.0%	7.0%	7.0%

5. OPTIONS FOR MEMBER CONSIDERATION

- 5.1 The Council has an opportunity to review its strategy in the light of the changes described above. It can choose a strategy that is:

- Service Driven – resulting Council Tax levels are accepted
- Tax Driven – services levels are matched to available funds
- Some combination of the two

- 5.2 Obviously the permutations of Council Tax levels in a particular years and changes in spending levels are endless but if members would find exemplifications of particular scenarios helpful these can be provided. Any proposal that results in adding to reserves in order to smooth increases over a number of years would require prior discussion with the District Auditor before a final decision were made.

6. SENSITIVITY

- 6.1 The update of last year's agreed plan, as shown in Para. 4.6 and Annex A, has also been adjusted for changes in some factors, to see if they have a significant impact on the results. The table below shows the factor that has been changed and the resulting level of Band D Council Tax increase over the three significant years. Annex B shows this graphically.

	Council Tax Increase (Band D)		
	2007/08 %	2008/09 %	2009/10 %
Starting Point (Annex A)	2.5	132	7
Plus Interest rate variations			
0.25% decrease from 2003/04	16	106	7
0.25% increase from 2003/04	2.5	117	15
Plus Inflation variations (2.5% assumed)			
0.25% decrease from 2003/04	2.5	123	11
0.25% increase from 2003/04	9	120	8
Plus Pay (2.5% assumed)			
1% increase from 2004/05	41	83	9
1% increase 2004/05 only	18	104	8

7. CONCLUSION

7.1 Cabinet are invited to consider the information outlined above and also ask the Overview and Scrutiny Panel (Planning and Finance) for their comments. Cabinet will then have the opportunity to debate their recommendation to Council at their meeting on the 11 September.

7.2 The strategy will need to determine:

- Any variations in the cash limits for the years 2004/05 to 2007/08 as approved in the current MTP and adjusted in this report (see Annex A).
- The approach to be taken on any unavoidable extra spending that emerges during the MTP process that relates to the years 2004/05 to 2007/08. i.e. whether any provision is made or whether it will have to be met from savings.
- The level of acceptable development in 2008/09, the new year 5 of the MTP.
- The level of acceptable development post 2008/09 for longer term planning purposes.
- The timing and scale of variations in the Council Tax level.

ACCESS TO INFORMATION ACT 1985

Source Documents:

1. Working papers in Financial Services
2. 2003/04 Revenue Budget and the 2003/08 MTP

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UPDATED APPROVED PROGRAMME

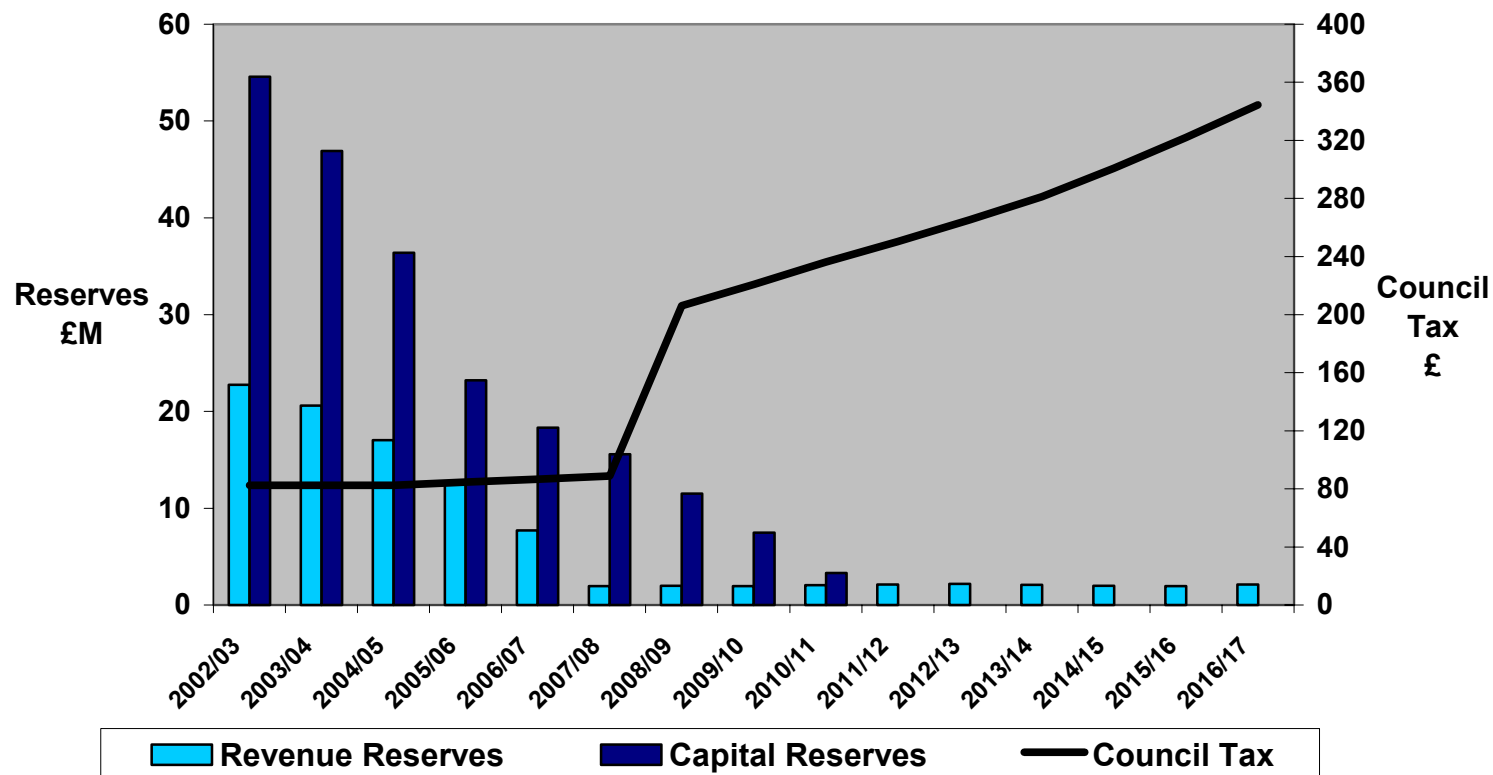
	2003/ 2004 £M	2004/ 2005 £M	2005/ 2006 £M	2006/ 2007 £M	2007/ 2008 £M	2008/ 2009 £M
APPROVED BUDGET/MTP	15.8	17.6	18.5	19.8	20.9	
Adjustments						
Higher Pension Contributions			0.3	0.4	0.4	
Lower interest rates	0.1	0.1		0.1	0.1	
Commutation adjustment *	0.3	0.4	0.6	0.5	0.7	
2002/03 outturn and inflation**		0.1	0.3	0.3	0.6	
REVISED TOTAL	16.2	18.2	19.7	21.1	22.7	24.0
Government Funding	9.5	10.0	10.6	11.2	11.8	12.0
Use of reserves	2.2	3.6	4.3	5.0	5.7	0.0
Council Tax	4.5	4.6	4.8	4.9	5.2	12.0

	£	£	£	£	£	£
Council Tax Level	82.54	82.54	84.60	86.72	88.89	206.22
Increase %	0%	0%	2.5%	2.5%	2.5%	132.0%

* Whilst these sums are a loss to revenue financing the Council retains them to fund capital expenditure.

** Adjustments for additional inflation in later years of the plan will be only be allocated once the need for them has been re-assessed in the annual budget review.

UPDATED APPROVED PROGRAMME
Council Tax increase 2.5% until reserves run out



FINANCIAL STRATEGY - SENSITIVITY

