
Budget and 2004 - 2009 Medium Term Plan

Report by the Corporate Director,
Commerce and Technology

1. PURPOSE

- 1.1 The purpose of this report is to allow the Council to consider the Cabinet's recommendations relating to the Medium Term Plan, the 2004/05 Budget and related Prudential Indicators.

2. BACKGROUND

- 2.1 Attached at Appendix A the report considered by Cabinet on the 29 January.

- 2.2 Cabinet decided to recommend -

- ◆ No variations to the items to be included in the MTP
- ◆ A Council Tax increase of £12 (Band D) for 2004/05
- ◆ That Council approve the Prudential Indicators (These are attached at D and have been amended to reflect the changes included in this report.)

- 2.3 The Cabinet decided not to make recommendations relating to 2005/06 onwards because of the review programme the Council determined at its last meeting. They also acknowledged that the final Government support figures were still awaited and that, unless the change was significant, it should result in an adjustment to the use of revenue reserves. The final figures were received on the 29 January and reduced the amount previously notified for 2004/05 by £21K. Subsequently the Benefits Subsidy temporary protection was increased on the 3 February.

- 2.4 This report therefore shows the impact of the recommended Council Tax level and the final Government support figures. It also puts the proposed Council Tax increase into context and considers the potential implications of capping. Reference is also made to the adequacy of reserves and the robustness of the budget estimates.

3. FINAL GOVERNMENT SUPPORT FIGURES

- 3.1 The table below shows the final position. It assumes the Council will receive the remainder of the additional sums resulting from last year's inclusion of the Area Cost Adjustment by 2008/09:

Government Support	2004/05 £000	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000
Original Forecast	-10,060	-10,638	-11,235	-11,846	-12,113
Variations					
First Provisional settlement	310	636	975	1,320	1,314
"Top-up"	-369	-648	-933	-1,223	-1,389
Final Settlement	21	18	15	12	9
Transferred to Benefits Subsidy	1,367	1,401	1,436	1,472	1,509
Government Support	-8,731	-9,231	-9,742	-10,265	-10,670
Estimated Increase in Benefits Subsidy	-1,002	-1,027	-1,053	-1,079	-1,106
Temporary Protection	-165				
Revised Protection	-100	-165			
Revised Forecast	-9,998	-10,258	-10,795	-11,344	-11,776
Total "Loss"	62	215	440	502	337
Council Tax Equivalent	£1.10	£3.79	£7.68	£8.68	£5.77
Increase/reduction	£1.10	£2.69	£3.89	£1.00	-£2.91

4. PROPOSED COUNCIL TAX LEVEL

4.1 The table below (further detail in Appendix B and service level at Appendix C) shows the overall financial position. It is based on a £12 Council Tax increase in 2004/05 and an **assumed** increase in subsequent years of the figures from the table in paragraph 3.1 above plus inflation of 2.5%. The figures for these later years are indicative only because of the reviews that are to be undertaken later in the year before decisions are made about the 2005/06 Council Tax level.

	Forecast	Budget	MTP Subject to review			
	2003/ 2004 £000	2004/ 2005 £000	2005/ 2006 £000	2006/ 2007 £000	2007/ 2008 £000	2008/ 2009 £000
	Total Budget	17,003	18,095	20,072	21,750	23,488
Total Funding	-14,032	-15,292	-16,071	-16,865	-17,750	25,029
Use of Revenue reserves	-2,971	-2,803	-4,001	-4,885	-5,738	0

Council Tax Level (band D)	£82.54	£94.54	£99.59	£105.97	£110.73	£226.83
Increase per year - £		£12.00	£5.05	£6.38	£4.76	£116.10
Increase per year - %		14.5%	5.3%	6.4%	4.5%	104.8%

- 4.2 Many local authorities which have been reported in the press as anticipating Council Tax increases of more than 5% next year have received a letter from the Government reminding them that the Secretary of State may use his powers to “cap” authorities that increase their spending by an unreasonable (in their view) amount. Capping can take a number of routes; the most extreme results in the Council having to reduce its Council Tax during the year. Given the level of the Council’s reserves, this would require a greater use of them to balance the budget, reductions in spending plans or a combination of the two.
- 4.3 In legal terms it is the level of “Budget Requirement” that is capped rather than the level of Council Tax although the Secretary of State could, for example, cap all District Councils that have an increase in budget requirement of more than 5% **and** an increase in Council Tax of more than 10%. The table below shows the Council’s proposed levels and increases in Council Tax and Budget Requirement. It is interesting to note that because of the change to the way that benefits will be funded the budget requirement will actually **reduce**, though a like for like comparison would indicate a 9% increase. Whilst this may not make any difference to any Government capping proposals it will create some presentational challenges in relation to District Councils.

	2003/ 2004 £000	2004/ 2005 £000
Total Budget	17,003	18,095
Less use of Revenue reserves	-2,971	-2,803
Budget Requirement before budget subsidy variation	14,032	15,292
Increase - £000		1,260
- %		9.0%
Benefits Subsidy variation		-1,267
True Budget Requirement	14,032	14,025
Reduction - £000		-7
- %		-0.0%
Council Tax Level	£82.54	£94.54
Increase - £		£12.00
- %		14.5%

- 4.4 If the Secretary of State proposes to cap Huntingdonshire the Council will have an opportunity to explain why it is felt that the increase is appropriate. This would include the following points -
- ◆ The current Council Tax level is the 8th lowest of the 238 District Councils in England.
 - ◆ The Council has increased spending to reflect the need to meet

- Government targets (e.g. recycling and e-government).
- ◆ Modest cash increases from a very low base are large in percentage terms.
- ◆ The Government has delayed payment, for an unspecified time, of around £1M per year of grant that they accept is due to the authority. This is more than any other District Council.
- ◆ Huntingdonshire expects to lose around £200k next year from the Government's changes to the way Benefits are reimbursed.
- ◆ Sound financial planning and the minimisation of financial risk from changes outside of the Council's control result in a staged achievement of the Council Tax necessary for sustaining planned spending levels rather than a dramatic increase in a single year.

4.5 The Council's representations could lead to us not being capped or pre-warned of a capping level for 2005/06.

4.6 If the Council is capped for 2004/05 then the cost of rebilling and any loss of interest on cash flow would fall on this Council. If other authorities precepting upon us (County Council, Police Authority and the new Fire Authority) were also capped they would have to share the cost of the re-billing, estimated at around £65K, though Huntingdonshire, as the collection authority, would still have to meet the whole of the loss of interest on cash flow. This is very difficult to estimate, as it is highly dependent on the precise timing of events.

4.7 It is possible that all four authorities will be considered for capping.

4.8 The Government is currently discussing the "passporting" of education expenditure with the County Council (i.e. ensuring that extra education related grant is all added to schools' budgets) and this could result in a delay the date on which the County will formally approve their precept. That could result in this Council having to call a special meeting to approve the Council Tax resolution for next year. It might also mean that the April instalment date would have to be delayed resulting in poorer cash flow and hence lower interest earnings.

5. RESERVES AND THE ROBUSTNESS OF THE 2004/05 BUDGET

5.1 The Local Government Act 2003 requires the Corporate Director, Commerce and Technology (as the Council's Chief Financial Officer) to report to the Council on the robustness of the estimates and the adequacy of reserves when it considers its budget and the consequent Council Tax. His comments are contained in paragraphs 5.2 and 5.3 below.

5.2 Robustness

The Council has tended in recent years to underspend its budget. This reflects consistent, effective application of financial controls and provides a sound base for setting future budgets.

The 2004/5 budget has been prepared using the budget for 2003/4 as

a base, and amending it for known changes, particularly -

- ◆ Inflation
- ◆ Expected pay rises
- ◆ The impact of MTP schemes
- ◆ Forecast interest rates, which have a significant impact on our investment income

There will always be some items that emerge after the budget has been prepared. These are normally met by compensating savings elsewhere in the budget, the use of the contingency (£126k) or, if necessary, the use of revenue reserves.

The most significant predictable risks to the budget are -

- ◆ higher inflation than anticipated (although the impact on costs would be partly offset by higher investment income);
- ◆ lower interest rates; and
- ◆ the appellant's costs relating to the Alconbury Inquiry.

Certain types of eventuality are mitigated in other ways. Most other significant risks are insured against, so losses are limited to the excesses payable. Under the Government's Bellwin Scheme, it meets a large proportion, over a threshold, of the costs of any significant peacetime emergencies (e.g. severe flooding).

Considering all these factors, I believe that the 2004/05 budget is adequately robust.

5.3 Revenue Reserves

These are estimated to be £19.4M at April 2004 and £16.6M at March 2005. This is comfortably above what would be considered a safe minimum level, which would be in the region of £2M.

6. RECOMMENDATION

The Council is recommended to approve –

- ◆ **A net revenue budget of £18.095m and a capital budget of £11.812m for 2004/05.**
- ◆ **Use of revenue reserves of £2.803m in 2004/05.**
- ◆ **A Council Tax increase of £12 on a band D property for 2004/05.**
- ◆ **Approval of the Medium Term Plan for 2005 – 2009 subject to the reviews outlined in the resolutions of the Council at its December meeting.**
- ◆ **The Prudential Indicators attached at Appendix D.**

(The consequential formal Council Tax resolutions are included in the next item on your Agenda)

BACKGROUND PAPERS

Grant Settlement Information – Files in Financial Services
Working Papers - Files in Financial Services

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