

FINANCIAL STRATEGY

(Report by the Director of 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 14 September and Cabinet will have the opportunity to consider their comments on 23 September prior to finalising their own recommendations to Council (29 September).

2 BACKGROUND

- 2.1 The Council is debt-free and has high levels of revenue and capital reserves which currently provide significant financial flexibility. However, the Medium Term Plan, approved by Council in February, will dramatically reduce the level of those reserves over the next few years to the extent that very large Council Tax rises would be required in 2008/09 based on the levels of Council Tax increase currently in the plan for the intervening years.
- 2.2 It is also important to note that the Government have capped a number of Authorities in the current year and has introduced the concept of not doing so if the resulting Council Tax is below the average level for the type of Authority. Whilst this year's Council Tax (£94.54) is the 15th lowest of the 238 District Councils and over 30% below the average this will not be the position by 2008/09 if the plan proceeds without amendment.
- 2.3 The final budget/MTP approved by February Council, after adjusting for the funding transfer from RSG to specific grants was as follows:

	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009
	£M	£M	£M	£M	£M
Budget	16.8	18.9	20.7	22.4	23.9
Total Funding	14.0	14.9	15.8	16.7	23.9
Use of reserves	2.8	4.0	4.9	5.7	0

	£	£	£	£	£
Council Tax	94.54	99.59	105.97	110.73	226.83
Increase %	14.5%	5.3%	6.4%	4.5%	104.8%

CONTEXT

3.1 Huntingdonshire District Council's Council Tax for the year 2004/05 was:

- in the lowest 7% of Council Tax levels for all Shire Districts in England (Range £58 to £269, Average £137)
- 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 only result in an 8.3% increase in the total bill, other things being equal).

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

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, pension contributions and Government Support.

4.2 The Financial Strategy is a longer-term view and within that time frame many of its assumptions 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 these 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 and addressed.

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:

- It had been assumed that there would at least need to be a 2.5% increase in employer's pension contribution rates in April 2005 due to recent downturns in equity markets. Whilst the result of the pension fund revaluation will not be known until late this year it is now anticipated that a higher increase will be required but spread over a longer period.
- Changes in interest rate expectations. Now slightly higher for this year and next plus the impact of any changes to the speed with which reserves are utilised.
- Reassessment of existing inflation provisions which have led to reductions until the provision for the new years 2009/10 to 2011/12 is inserted. All are based on 2.5% for general price increases.

4.4 There are also some items that it is difficult to forecast at this stage but will be brought into the MTP at later stages. These include:

- Our assumption as to the speed with which the Council will get its additional Government Support (spread over four years) which 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.

- Costs were awarded against the Council resulting from the Alconbury Inquiry but the Council is vigorously disputing the size of the applicant’s initial claim so no provision has been made at this stage.

4.5 The next step is to consider any provision for service variations beyond the level to March 2009 agreed in the MTP. It has been assumed that, given the financial position the Council will be facing in the coming years, 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 (£126k) 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 need to be funded from savings.

4.6 The final element is the balance between the use of Reserves and increases in Council Tax. The approach determined in last year’s budget has been maintained i.e. to increase the Council Tax by 2.5% per year plus the forecast loss in Government Support until reserves fall to the minimum level. This results in the following position:

	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012
	£M	£M	£M	£M	£M	£M	£M	£M
Budget	16.7	18.3	20.4	22.1	24.0	25.6	26.8	28.0
Total Funding	14.0	14.9	15.8	16.7	22.7	25.6	26.8	28.0
Use of reserves	2.7	3.4	4.6	5.4	1.3	0	0	0

	£	£	£	£	£	£	£	£
Council Tax	94.54	99.59	105.97	110.73	204.47	242.66	256.60	270.22
Increase %	14.5%	5.3%	6.4%	4.5%	84.7%	18.7%	5.7%	5.3%

4.7 Annex A provides a summary of the relevant figures. This “New Starting Point” delays some of the 2008/09 tax increase but still requires tax rises of more than 100% over the two years 2008/09 and 2009/10.

OPTIONS FOR MEMBER CONSIDERATION

5.1 The Council can choose a strategy that is:

- Service Driven – resulting Council Tax levels are accepted
- Tax Driven – services levels are matched to available funds

5.2 If the Service Driven Approach is followed then spending of around £28M is projected for 2011/12 and this requires a Council Tax level of about £270. Existing levels of reserves allow a range of choices as to how these tax increases are spread over the next 7 years. The table in Para. 4.6 has exemplified one approach. Others include a constant percentage increase starting next year which will avoid any significant fluctuation in the trend. This would result in the following:

	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012
	£M	£M	£M	£M	£M	£M	£M	£M
Budget	16.7	18.3	20.3	21.9	23.8	25.5	26.7	28.0
Total Funding	14.0	15.6	17.3	19.3	21.5	24.1	26.8	27.9
Use of reserves	2.7	2.8	3.2	2.9	2.7	1.9	0.7	0.6

	£	£	£	£	£	£	£	£
Council Tax	94.54	110.71	129.64	151.81	177.76	208.16	243.76	260.09
Increase %	14.5%	17.1%	17.1%	17.1%	17.1%	17.1%	17.1%	6.7%

5.3 Alternatively, based on the Government's current attitude to capping, there could be an increase to the expected District Council average next year followed by 2.5% until a further large increase became inevitable. This results in the following:

	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012
	£M	£M	£M	£M	£M	£M	£M	£M
Budget	16.7	18.2	20.2	21.8	23.6	25.5	26.8	28.0
Total Funding	14.0	17.1	17.9	18.8	19.4	21.3	26.8	28.0
Use of reserves	2.7	1.1	2.3	3.0	4.2	4.2		

	£	£	£	£	£	£	£	£
Council Tax	94.54	140.00	143.50	147.09	150.76	169.44	256.60	270.22
Increase %	14.5%	48.1%	2.5%	2.5%	2.5%	12.4%	51.4%	5.3%

5.4 If none of this range of resulting patterns of Council Tax increase are acceptable then inevitably consideration would have to shift to the Tax Driven approach.

5.5 Tax Driven means working backwards from acceptable levels of Council Tax increase to the necessary reductions in spending levels. Thus one option might be that described in Para. 5.3 (a rise to the District Council average) but with increases maintained at 2.5% per year subsequently. This would result in the following levels of spending reductions being required:

	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012
	£M	£M	£M	£M	£M	£M	£M	£M
Budget	16.7	18.2	20.2	21.8	23.7	25.5	26.8	28.0
REDUCTIONS						-0.9	-5.9	-6.5
Reduced Budget	16.7	18.2	20.2	21.8	23.7	24.6	20.9	21.5
Total Funding	14.0	17.1	17.9	18.8	19.4	20.4	20.9	21.5
Use of reserves	2.7	1.1	2.3	3.0	4.3	4.2		

	£	£	£	£	£	£	£	£
Council Tax	94.54	140.00	143.50	147.09	150.76	154.53	158.39	162.35
Increase %	14.5%	48.1%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%

Note: Savings will need to continue to rise beyond 2011/12 as base growth exceeds the assumed level of Council Tax increase.

5.6 At the other extreme increases could be pegged to 2.5% plus the forecast loss of Government Grant. This would result in the following position.

	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012
	£M	£M	£M	£M	£M	£M	£M	£M
Budget	16.7	18.3	20.4	22.1	23.9	25.6	26.8	28.0
REDUCTIONS					-5.3	-7.5	-8.2	-8.9
Reduced Budget	16.7	18.3	20.4	22.1	18.6	18.1	18.6	19.1
Total Funding	14.0	14.9	15.8	16.7	17.3	18.1	18.6	19.1
Use of reserves	2.7	3.4	4.6	5.4	1.3			

	£	£	£	£	£	£	£	£
Council Tax	94.54	99.59	105.97	110.73	113.50	116.34	119.24	122.22
Increase %	14.5%	5.3%	6.4%	4.5%	2.5%	2.5%	2.5%	2.5%

Note: Savings will need to continue to rise beyond 2011/12 as base growth exceeds the assumed level of Council Tax increase.

5.7 Finally, some form of mid-course, such as the current year's concept of £12 per year increase could be used. This would lead to:

	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012
	£M	£M	£M	£M	£M	£M	£M	£M
Budget	16.7	18.2	20.3	21.8	23.6	25.3	26.6	27.9
REDUCTIONS		-0.5	-1.5	-2.0	-2.5	-3.5	-4.0	-4.5
Reduced Budget	16.7	17.7	18.8	19.8	21.1	21.8	22.6	23.4
Total Funding	14.0	15.2	16.6	17.8	19.0	20.4	21.4	22.5
Use of reserves	2.7	2.5	2.2	2.0	2.1	1.4	1.2	0.9

	£	£	£	£	£	£	£	£
Council Tax	94.54	106.54	118.54	130.54	142.54	154.54	166.54	178.54
Increase %	14.5%	12.7%	11.3%	10.1%	9.2%	8.4%	7.8%	7.2%

Note: Savings will need to increase further to approximately £5.5M post 2011/12

5.8 This last example also shows savings being commenced before revenue reserves are all used. This could be applied to each option and allows a more considered approach and subsequent fine tuning but does not reduce the ultimate level of savings required.

5.9 None of the levels of savings illustrated would be easy to achieve. They would each require difficult decisions on the relative importance of services as major cuts will be required in service developments already included in the MTP and in existing services. The Customer Consultation Survey will assist members in providing guidance to the officers so they can prepare options for consideration. The base budget review that is already underway will ensure that any over-budgeting is removed and that efficiency improvements are sought but, even then, service cuts will be required with consequent reductions in staffing levels.

SENSITIVITY

- 6.1 The new starting point has also been adjusted for changes in some factors, to see if they have a significant impact on the model. 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.

	Council Tax Increase (Band D)		
	2007/08 %	2008/09 %	2009/10 %
Starting Point (Para 4.6)	4.5%	84.7%	18.7%
With Interest rate variations			
0.25% increase from 2005/06	4.5%	89.8%	15.7%
0.25% decrease from 2005/06	4.5%	79.4%	21.9%
With Inflation variations (2.5% assumed)			
0.25% increase from 2005/06	4.5%	94.7%	15.2%
0.25% decrease from 2005/06	4.5%	74.5%	22.6%

CONCLUSION

- 7.1 Cabinet, and subsequently Council, is faced with a difficult set of decisions which revolve around the balance between the level of services and the rate of increase in Council Tax. Fortunately the Council's reserves allow whatever strategy evolves to be carried out in a considered and professional manner to ensure that local people will receive good value services at whatever level is determined.
- 7.2 Cabinet is invited to consider the information outlined above and ask the Overview and Scrutiny Panel (Planning and Finance) for its comments. Cabinet will then have the opportunity to debate its recommendation to Council at the meeting on the 23 September.

ACCESS TO INFORMATION ACT 1985

Source Documents:

1. Working papers in Financial Services
2. 2004/05 Revenue Budget and the 2004/09 MTP

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NEW STARTING POINT

	Budget	Existing Medium Term Plan				Forecast		
	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012
	£000	£000	£000	£000	£000	£000	£000	£000
APPROVED BUDGET and MTP	16,828	18,880	20,697	22,409	23,923	23,995	23,967	23,937
ADJUSTMENTS								
Employers' pension contributions		-100		200	400	600	600	600
Interest rates	-114	-145	-48	-118	-78	116	269	426
Inflation		-354	-257	-401	-289	861	1961	3061
TOTAL BUDGET	16,713	18,281	20,392	22,091	23,955	25,572	26,796	28,025
FUNDING								
Government Support	-8,731	-9,231	-9,742	-10,265	10,670	-11,251	-11,502	-11,758
Collection Fund Deficit	14							
Council Tax	-5,308	-5,648	-6,070	-6,406	-11,947	-14,320	-15,294	-16,267
Use of Revenue reserves	-2,688	-3,402	-4,580	-5,420	-1,338	0	0	0

COUNCIL TAX								
Total Band D Equivalents	56,149	56,710	57,278	57,850	58,429	59,013	59,603	60,199
Council Tax Level	£94.54	£99.59	£105.97	£110.73	£204.47	£242.66	£256.60	£270.22
Increase %	14.5%	5.3%	6.4%	4.5%	84.7%	18.7%	5.7%	5.3%