

**FINANCIAL STRATEGY, MEDIUM TERM PLAN 2007-2011 AND
BUDGET 2006-2007
(Report by the Head of Financial Services)**

1. PURPOSE

- 1.1 The purpose of this report is to allow Cabinet to determine its recommendations to Council on 16 February in relation to the Council's Financial Strategy, Medium Term Plan for 2007/11, Budget for 2006/07 and associated matters.

2. BACKGROUND

- 2.1 The Council is debt-free and has high levels of revenue and capital reserves which currently provide significant financial flexibility. The Council decided in February 2005 that it would use this flexibility to allow modest cash increases in the level of Council Tax each year so that the level of spending reductions required when reserves run out would be minimised. It therefore based the Medium Term Plan on increases in Council Tax of £12 per year. The following table summarises the approved plan:

APPROVED PLAN	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
	£000	£000	£000	£000	£000	£000
Net Spending before efficiency savings	16,685	17,775	19,670	20,749	22,429	24,116
Efficiency Savings Target	0	-402	-826	-1,273	-1,307	-1,342
Net Spending	16,685	17,373	18,844	19,476	21,122	22,774
Funding						
Total Government Support	-8,731	-9,508	-9,995	-10,481	-10,972	-11,219
Collection Fund Deficit	14	4	0	0	0	0
Council Tax	-5,308	-6,043	-6,790	-7,552	-8,328	-9,120
Use of Reserves	-2,660	-1,826	-2,059	-1,443	-1,822	-2,435
Council Tax	£94.54	£106.54	£118.54	£130.54	£142.54	£154.54
Increase %	14.5%	12.7%	11.3%	10.1%	9.2%	8.4%
Remaining reserves (end of year)	£000	£000	£000	£000	£000	£000
Revenue	17,312	15,486	13,427	11,983	10,162	7,727
Capital	43,038	28,051	17,114	14,864	10,837	5,619

- 2.2 The report included a graph that showed that net spending would need to have been reduced by £5.5M per year by 2015/16 (including the efficiency savings shown above) if Council Tax increases of £12 per year were not to be exceeded.

3. CAPPING

- 3.1 Unfortunately, the Government changed its approach to capping for this year (it had excluded District Councils taxing at below average levels in 2004/05) and, despite a full explanation of the Council's financial strategy, determined that the Council's budget requirement

(Net Spending less use of reserves = £15.547M) would be capped at £15.160M. The Council approved a revised budget requirement of this sum which resulted in a reduced Council Tax level of £99.71 for a Band D property. This is a 5.5% increase on 2004/5, and a reduction of £6.83 on what we originally billed.

- 3.2 The reduction resulted in an extra use of reserves (£387k) and an estimated cost of £60k to fund the re-billing exercise.
- 3.3 Inevitably, the possibility of future capping must be taken account of in determining the Council's financial strategy.

4. **CONTEXT**

- 4.1 Huntingdonshire's Council Tax this year (£99.71) compares to that of other Districts as follows -

- ◆ in the lowest 8% of Council Tax levels for all Shire Districts in England. Range £59 to £275, average £145. The total impact of capping reduced the District average Council Tax by about 40p.
- ◆ 8.4% of the total Council Tax bill* for Huntingdonshire residents.

* *This includes the amounts set by the County Council, the Fire and Police Authorities and Town or Parish Councils.*

5. **UPDATING LAST YEAR'S POSITION**

- 5.1 Some of the elements of the Council's finances are broadly outside of its control. Examples include take-up of some services, inflation, interest rates, pension contributions and Government financial support. The Financial Strategy goes beyond the MTP period (up to March 2011) and considers the Council's financial position up to March 2017. Within that time frame, many assumptions will need to be revised due to local government being part of 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.
- 5.2 The first step in the process is to review the assumptions that were included in the approved MTP. A number of adjustments need to be made.
- 5.3 **Inflation.** Two additional items of inflation were included in the forecast report - the impact of the 50% increase in electricity prices re-tendered with effect from October and increasing the provision for pay awards to 3%. Following the concerns that Overview and Scrutiny raised in relation to the inflation provision a more detailed review has been carried out and, in particular, the impact of the cost of performance pay has been reassessed to take more account of the impact of staff turnover.

5.4 **Interest Rates.** Interest rates of around 5% have been assumed for the next 3 years falling to 4.75% subsequently. Long term interest rates, for when the Council has to start borrowing to fund Capital Expenditure, have been assumed at 4.3%.

5.5 **Government financial support.** The Council received the initial proposals for 2006/07 on 5 December. As part of the move to three year settlements they have given a 2006/07 and an **indicative** 2007/08 figure. The ensuing figures in the MTP and forecast are estimates.

Whilst the increase of £892k is welcomed it should be noted that £206k is effectively a release of the money previously held back and £553k is due to additional duties transferred to the Council. These include free concessionary fares, equality for people with disabilities, Freedom of Information and electoral administration.

The Government's figures show the Council will be the 4th most under-funded, in cash terms, District Council in England. The amount not yet received will be £544k.

There is usually a small change to the provisional settlement when the final figures are announced which can be adjusted for in the use of revenue reserves.

Government Support	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	£000	£000	£000	£000	£000	£000
Assumption in approved MTP Provisional settlement		9,995	10,481	10,972	11,219	11,471
True Grant	10,258	11,431	11,995	<i>12,265</i>	<i>12,541</i>	<i>12,823</i>
Withheld for Floors and Ceilings	750	544	364	<i>182 (est.)</i>	<i>0</i>	<i>0</i>
Receivable	9,508	10,887	11,631	12,083	12,541	12,823
Variation from MTP		+892	+1,150	+1,111	+1,322	+1,352

5.6 **Review of the Medium Term Plan.** Annex A details the proposed changes to the MTP schemes in service order. The non-shaded lines represent items approved last year. The shaded lines represent the following:

- Green** Variations that have a beneficial impact or only have a cost impact that is due to inflation or deferral.
- Orange** Other variations

The table below summarises these variations:

MTP Proposed Variations	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	£000	£000	£000	£000	£000	£000
Variations						
Concessionary Fares	16	232	232	232	232	232
Pathfinder House and Operations Centre	-165	-209	4	409	563	586
Reductions, deferrals and other new items	-280	-73	-18	-153	-252	-132
Technical including inflation	-63	138	165	196	271	238
Total Variations	-492	88	383	684	814	924

The provision for Concessionary Fares is based on the assumption that a free scheme will cost twice the price of a half fare scheme. This will be the basis of negotiation for 2006/07 but a more detailed approach needs to be developed for subsequent years.

The variation for Pathfinder House and the Operations Centre is based on the figures reported to December Council but, like all schemes, is here based on the assumption that capital expenditure can be funded from capital reserves so that the cost is just based on the loss of interest. During the plan period these reserves will be fully used and the Council will need to borrow again. The extra cost of repaying these loans is included as a separate adjustment within Annex C and was taken account of in the December Council report. Revised figures will emerge during the budget process and the figures in this report will be updated at that time.

This year's appraisals are available on the Members' area of the intranet and the Council's Website.

- 5.7 **Provision beyond 2010/11.** 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 but £3.59M per year for capital investment (at 2006/07 prices) should be included. No allowance has been made for unavoidable additional costs other than the Contingency Reserve (£132k). It has been assumed that any additional items that do not meet the criteria for the reserve would need to be funded from additional savings.
- 5.8 **Efficiency Savings.** Last year the Government announced its approach to efficiency savings over the coming years which created the need for cashable savings of £1.3m per annum by 2009/10. The table below shows the amount of efficiency savings and budget reductions that have already been identified without impact on service levels to the public. More detail is shown in Annex B.

Savings	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Target	402	826	1,273	1,307	1,342	1,342
Identified	350	452	450	448	446	444

5.9 **Car Parking Strategy.** The Car Parking Strategy assumed the delivery, by developers, of a substantial increase in public car parking in Huntingdon during 2006/07. This and its associated income are now unlikely to be achieved until the end of the current MTP period. In addition, potential changes in national planning policy on car parking provision make it appropriate to review the approved strategy. The MTP has therefore been adjusted to allow sufficient funding for the review and the extension of the Huntingdon Riverside Car Park in 2006/07. The remainder of the bid should be regarded as provisional pending the review of the strategy, which will be completed in 2006/07 in time to allow adjustments to be made in next year's review of the MTP.

5.10 **Other adjustments.**

- ◆ The impact of the 2005/06 capping
- ◆ The 2004/05 outturn
- ◆ The forecast level of capital receipts

5.11 There are also some items for which no adjustment has been made at this stage. They include -

- ◆ No allowance has been made for any benefit that may arise from the Government's Local Authority Business Growth Incentive scheme which will allow authorities a portion of increases in business rates over and above a norm.
- ◆ Inflation on Capital Schemes of 2.5% per year has been included in total within the plan and will be allocated to individual schemes once the budget is approved. There are recent examples of high tender prices on specific schemes but there is little objective data on which to base a higher inflation allocation or even to estimate a suitable contingency sum so no additional provision has been included. The Pathfinder House figures are a fixed price quote.
- ◆ No provision has been made for two schemes, proposed by Members, that do not comply with the COMT guidelines endorsed by Cabinet at its November meeting. These are the Introduction of Dog Waste Bins (£80k per year revenue impact) and Broadband for Members (£45k per year revenue impact). Neither is there provision for any demographic growth in service for refuse, recycling, street cleansing or grounds maintenance as, due to the way in which the refuse/recycling service has developed, it is felt that a review should first be undertaken to identify any potential savings.
- ◆ No provision has been made for the works that will be necessary at the Council's mobile home site in St Neots as a result of ground contamination. Government financial support is expected to meet much of the impact but some costs, as yet unquantifiable, are likely to fall on the Council.

6. OPTIONS FOR MEMBER CONSIDERATION

6.1 When the Government released the draft grant settlement it made the following statement about Council Tax levels.

“We have provided a stable and predictable funding basis for local services. We expect local government to respond positively as far as council tax is concerned.

Therefore we expect to see average council tax increases in each of the next two years of less than 5%. There is, following today’s announcement, no excuse for excessive increases.

Local government should be under no illusions; if there are excessive increases, we will take capping action – as we have done over the last two years.”

In a subsequent letter to Council Leaders the Minister said:

“Authorities should not use previous capping principles as a guide for 2006/07 and 2007/08”

6.2 The deferred Forecast Report considered three options for future Council Tax increases -

- ◆ £12 per year
- ◆ £12 per year plus a catch up for the impact of this years capping
- ◆ applying the 2005/06 capping criteria (the higher of a 6% increase in budget requirement or a 5.5% increase in Council Tax).

Cabinet considered that the second option should not be pursued.

6.3 In the light of this year’s capping and the Government’s rather categorical statement it is appropriate to review these options. At best, it might be assumed that the £12 per year increase could be reinstated in 2008/09 (new Option 1) but more cautious to assume continued constraint (new Option 2). The two options are considered in more detail below.

6.4 It should be remembered that although the Government constantly refers to Council Tax increases the legislation requires any capping decision to be framed around increases in budget requirement. Hence in the same way that this year’s capping criteria affected Councils that had an increase of more than 6% in budget requirement **AND** a Council Tax increase of more than 5.5% this future constraint has been interpreted as **the higher of** a 5% increase in budget requirement **or** a 5% increase in Council Tax. It is important to appreciate this because, as it is unlikely that the Government will increase their financial support at 5% per year, Council Tax increases in excess of 5% will result.

6.5 Option 1 and Comments

Option 1 5% for two years then £12 per year	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12
	£000	£000	£000	£000	£000	£000	£000
Net Spending before savings/reductions	17,317	19,379	20,705	22,781	24,899	26,803	27,821
Efficiency Savings Target	-402	-826	-1,273	-1,307	-1,342	-1,342	-1,342
Additional Spending Reductions							-1,723
Net Spending	16,915	18,553	19,432	21,474	23,557	25,461	24,756
Funding excl. Reserves	15,160	16,774	17,953	19,164	20,397	21,469	22,562
Use of Reserves	1,755	1,779	1,479	2,310	3,160	3,992	2,194
COUNCIL TAX	£ 99.71	£ 104.69	£ 109.92	£ 121.92	£ 133.92	£ 145.92	£ 157.92
Increase £	£5.17	£4.98	£5.23	£12	£12	£12	£12
Increase %	5.5%	5.0%	5.0%	10.9%	9.8%	9.0%	8.2%
Increase in Budget Requirement %	8.1%	10.6%	7.0%	6.7%	6.4%	5.3%	5.1%

Reacting to Government's latest statements but assumes a relaxation post 2007/08

Links with the Council's approved Strategy.

Total Spending Reductions rise to £5.2M by 2016/17.
The Council Tax level would be £217.92 in 2016/17.

Likelihood of capping – Low in the next two years

Public survey of taxpayers showed some support for increases of around £12.

6.6 Option 2 and Comments

Option 2 5% increase	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12
	£000	£000	£000	£000	£000	£000	£000
Net Spending before savings/reductions	17,317	19,379	20,705	22,785	24,922	26,856	27,881
Efficiency Savings Target	-402	-826	-1,273	-1,307	-1,342	-1,342	-1,342
Additional Spending Reductions	0	0	0	0	0	0	-4,214
Net Spending	16,915	18,553	19,432	21,478	23,580	25,514	22,325
Funding excl. Reserves	15,160	16,774	17,952	18,849	19,792	20,781	21,820
Use of Reserves	1,755	1,779	1,480	2,629	3,788	4,733	505
COUNCIL TAX	£ 99.71	£104.69	£109.91	£116.50	£123.60	£134.31	£ 145.53
Increase £	£5.17	£4.98	£5.22	£6.59	£7.10	£10.71	£11.22
Increase %	5.5%	5.0%	5.0%	6.0%	6.1%	8.7%	8.4%
Increase in Budget Requirement %	8.1%	10.6%	7.0%	5.0%	5.0%	5.0%	5.0%

Reacting to Government's latest statements and assumes no relaxation post 2007/08

Total Spending Reductions rise to £5.7M by 2016/17.
The Council Tax level would be £209.78 in 2016/17.

Likelihood of capping – Low

Council Tax increases approaching £12 by 2011/12 so some linkage with approved strategy.

Public survey of taxpayers showed some support for increases of around £12.

6.7 **Spending Reductions.** There is the potential for significant changes in Local Government in the coming years. The Lyons report may have a major impact on the financing of Local Authorities and consideration of unitary authorities is back on the Government's agenda. It is impossible to assess the impact of such changes and so the financial strategy is based on the best assumptions that can be made at the present time. Within that context, both of the options illustrated above will require a mixture of **efficiency improvements, increases in fees and charges, reductions in existing services and deletion of developments already included in the MTP.** The Customer Consultation Survey and the Council's targets will provide a starting point for this prioritisation but it will be necessary to determine the relative importance of potential options within that framework. In the tables above, these reductions are shown in the year when they become inevitable.

6.8 **Strategy.** It is solely the threat of capping that is forcing the Council to keep its Council Tax artificially low in relation to that of the other District Councils in England. This will inevitably result in service reductions and/or increases in fees and charges that local people may not want. There is a direct trade off between levels of Council Tax increase and the level of savings required as illustrated in the following table.

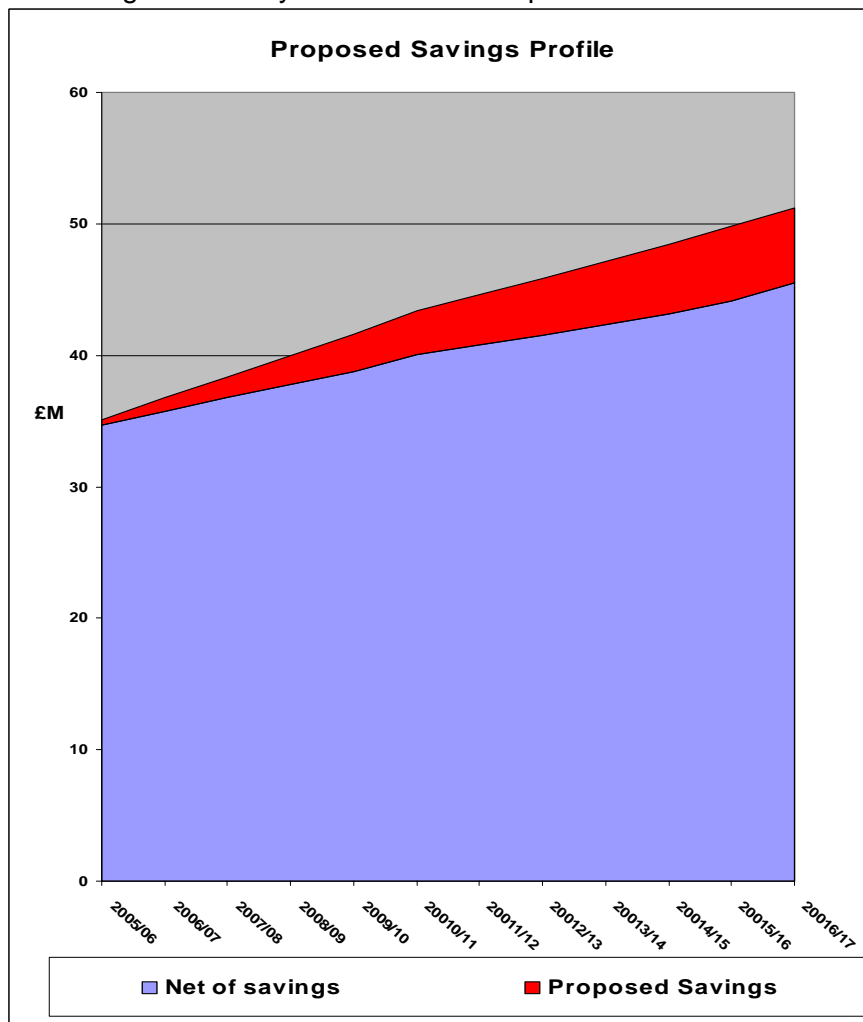
Option	Level of Council Tax in 2016/17	Savings required
	£	£M
5% for two years then £12	217.92	5.2
5% throughout	209.78	5.7

6.9 As there is no indication that Government policy towards the control of Council Tax increases will change it is proposed that the Council's strategy should be based on a 5% limit (i.e. higher of % increase in budget requirement and Council Tax) but, as normal, this will be reviewed each year to take account of the latest Government indications on capping. The table below is therefore based on this approach but with a smoother profile of savings (see graph below) that avoids any major fluctuations. More detail is given in Annex C and the service budget is at Annex D.

Proposed Option with smoothed savings profile	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12
	£000	£000	£000	£000	£000	£000	£000
Net Spending before savings/reductions							
Efficiency Savings Target	-402	-826	-1,273	-1,307	-1,342	-1,342	-1,342
Additional Spending Reductions		-200	-300	-900	-1,500	-2,000	-2,500
Net Spending	16,915	18,351	19,118	20,542	21,992	23,344	23,809
Funding excl. Reserves							
Use of Reserves	1,755	1,577	1,166	1,693	2,200	2,562	1,988
COUNCIL TAX	£ 99.71	£104.69	£109.91	£116.50	£123.60	£134.32	£ 145.53
Increase £	£5.17	£4.98	£5.22	£6.59	£7.10	£10.72	£11.21
Increase %	5.5%	5.0%	5.0%	6.0%	6.1%	8.7%	8.3%
Increase in Budget Requirement %	8.1%	10.6%	7.0%	5.0%	5.0%	5.0%	5.0%

Total Spending Reductions rise to £5.7M by 2016/17 when the Council Tax level would be £209.81.

6.10 The graph below shows the accumulating impact of the savings as they grow steadily over the forecast period.



7. CONSULTATION AND COMMENTS

7.1 A consultation meeting with members of the business community is taking place on 26 January and their comments will be reported to the meeting.

7.2 This report will be considered at a joint meeting of the two Overview and Scrutiny Panels on the 24 January and their comments will also be reported to the meeting.

8. PRUDENTIAL CODE

8.1 The Prudential Code requires the full Council, as part of the budget-setting process, to approve the prudential indicators shown in Annex E.

9. RESERVES AND THE ROBUSTNESS OF THE 2005/06 BUDGET

9.1 Annex F considers the sensitivity of the plan in the longer term to variations in inflation, pay awards and interest rates.

9.2 The Local Government Act 2003 requires the Head of Financial Services (as the Council's temporary Chief Financial Officer) to report to the Council on the robustness of the estimates and the adequacy of reserves when it considers its budget for 2006/07 and the consequent Council Tax. These comments are contained in Annex G and confirm that the budget is adequately robust and the level of revenue reserves is significantly above the minimum level required.

10. CONCLUSIONS

10.1 The Council was capped for 2005/06 and had to reduce the Council Tax by £6.83 at a cost of around £60k despite this being due to changes in the subsidy from reserves rather than increases in spending. The revised Council Tax level is in the lowest 8% of the 238 English district councils.

10.2 The forecast has been updated for all those items highlighted in paragraphs 5.1 to 5.10 but not for those other items highlighted in paragraph 5.11 because the details are not yet sufficiently definite. The table in paragraph 5.6 highlights the MTP changes.

10.3 Cabinet, and subsequently Council, are faced with a decision which must take appropriate account of the Government's capping proposals. Despite the Council having a very low level of Council Tax, local people may, in due course, be forced to accept significant service cuts because the Government's approach does not differentiate between reductions in funding from the interest on falling reserves as opposed to large increases in spending.

10.4 There can be no guarantee that there will be capping next year or at what level it will be. However, given the fact that the Council was capped this year and the strength of the Government's statements it is proposed that the Council's strategy is based on a 5% per year increase but this be reviewed each year in the light of the Government's statements on capping.

10.5 A low risk would be to assume a Council Tax increase of 4.99% next year and this is the basis on which the final recommendations in this report are made. It results in spending reductions of £5.7M being required by 2016/17. The proposed strategy of 5% increases assumes the Government's current statements on capping will apply for the foreseeable future but the position will be reviewed each year.

- 10.6 Members will need to consider the profile of the savings that are to be found. This profile needs to consider both the reliability of the estimates that the forecast is based on and the potential changes to Local Government that could flow from the Lyons Report and re-consideration of unitary councils. The recommended option is based on a phased approach which can be reviewed on an annual basis to reflect these potential changes and the impact of the Government continuing to cap Councils in the same situation as Huntingdonshire.
- 10.7 The combination of sound budget practices and significant revenue reserves means that the proposed 2006/07 budget is robust and that the Council is well-placed financially to deal with any unforeseen expenditure.

11. RECOMMENDATION

The Cabinet is asked to consider the following recommendations to February Council -

- ◆ **Approval of the Financial Strategy (Para 6.9 and Annex C)**
- ◆ **Approval of the proposed budget and MTP (Annexes A, C and D)**
- ◆ **Approval of a Council Tax increase of £4.98 (4.99%) for 2006/07.**
- ◆ **Approval of the Prudential Indicators in Annex E.**

ACCESS TO INFORMATION ACT 1985

Grant Settlement Information – Files in Financial Services
Working Papers - Files in Financial Services
Project Appraisals
2005/06 Revenue Budget and the 2006/010 MTP

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