

FINANCIAL STRATEGY
(Report by the Head of Financial Services)

1 PURPOSE

- 1.1** This report updates the Financial Forecast so that any necessary changes to the Council's Financial Strategy and the approach to this year's review of the MTP can be assessed. It also seeks Member approval of a list of proposed savings.
- 1.2** This report will be considered by the Overview and Scrutiny Panel (Corporate and Strategic Framework) on 5 September and Cabinet will then have the opportunity to consider their comments on 7 September prior to making their own recommendations to Council (27 September).

2 BACKGROUND

- 2.1** The Council's existing financial strategy and Medium Term Plan (MTP) recognise the challenge facing the Council if it is to balance the increased costs of higher than RPI inflation and increasing public expectations for services (whether from local people or via the Government) with constraints on resources, due to Government Grants not rising proportionally and wishing to minimise Council Tax increases.
- 2.2** Previously, the Council planned to increase the Band D Council Tax by £12 per year but, as a result of being capped, limited future increases in Council Tax to the higher of 5% and that resulting from a 5% increase in Budget Requirement to minimise the risk of further capping and this has become a key element of the future strategy. It significantly reduces the options available despite the Council Tax level (£104.69) being very low. It is in the lowest 8% of the 238 English District Councils which range from £59 to £275 with an average of £145.
- 2.3** The table below summarises the plan agreed last year which was based on identifying significant savings over the coming years.

APPROVED PLAN	Budget	MTP			
	2006/07	2007/08	2008/09	2009/10	2010/11
Revenue Spending	£M	£M	£M	£M	£M
Net Spending before savings	19.3	20.7	22.6	25.0	26.9
Savings Target	-1.0	-1.6	-2.2	-2.8	-3.3
Net Spending	18.3	19.1	20.5	22.2	23.5
Funding	-16.8	-18.0	-18.9	-19.8	-20.8
DEFICIT – Met from Reserves	-1.5	-1.2	-1.6	-2.4	-2.7
Council Tax	£104.69	£109.91	£116.50	£123.60	£134.33
Increase %	5.0%	5.0%	6.0%	6.1%	8.7%
Capital Spending	£000	£000	£000	£000	£000
Met from Reserves	14.5	18.0	11.9	1.1	1.1
Borrowing	0	0	0.8	6.1	3.9
Total	14.5	18.0	12.7	7.2	5.0

- 2.4** The Council is debt-free and has high levels of revenue and capital reserves (£18M and £42M respectively at April 2006) which currently provide significant financial flexibility and provide the lead time to bring efficiency savings on line. Maximising efficiency savings will limit the need for reductions in services but inevitably there will need to be some in due course.
- 2.5** The Council has continued to spend carefully and this, together with a number of events outside of its control, has resulted in last year's outturn being £2m less than budgeted. This can be retained in Revenue Reserves to increase future flexibility. £145k of revenue spending and £3M of capital spending have been brought forward to the current year. Cabinet received a report on the outturn at its July meeting and approved a number of measures to improve the accuracy of budget monitoring.
- 2.6** Much of last year's lower than expected outturn was due to temporary circumstances but a thorough review is underway and opportunities to reduce budgets will be taken and added into the savings exercise in due course.
- 2.7** Although additional revenue reserves provide more flexibility the Council faces unavoidable significant increases in its costs over the coming years such as inflation in excess of RPI (particularly on fuel, pensions and pay) and the loss of substantial interest on reserves as they are used to fund capital expenditure (in the next few years) and revenue expenditure (more gradually). Thus the identification and delivery of savings remains an unavoidable element in the Council's financial strategy.

3. SAVINGS

- 3.1** Overview & Scrutiny and Cabinet received a report in June/July that stated that the aim should be for the Council to reach the position where the savings for the following year are identified by the preceding December. It was envisaged that this might not be achievable for the 2007/08 savings due to the time needed to deal with the 2006/7 target.
- 3.2** The Chief Officers' Management Team, following discussions with Executive Councillors, has identified a list of proposed savings for member consideration. The table below summarises the results which are shown in detail in Annex A.

		2006/07	2007/08	2008/09	2009/10	2010/11
		£000	£000	£000	£000	£000
Total of savings proposals	Min	-539	-1,149	-1,375	-1,375	-1,321
	Max	-539	-1,271	-1,525	-1,525	-1,471
Other net variations identified to date (temporary and permanent)		-42	+1	-184	-184	-184
Combined Position	Min	-581	-1,148	-1,559	-1,559	-1,505
	Max	-581	-1,270	-1,709	-1,709	-1,655
Savings Targeted for this exercise		-574	-1,123	-1,700	-1,800	-1,800
Savings Target Per 2006 Budget (net of savings previously identified)		-574	-1,123	-1,709	-2,346	-2,898

- 3.3** Given that the targets for 2006/07, 2007/08 and potentially 2008/09 can be achieved it has been assumed ***for the purpose of this forecast*** that savings targets are achievable. This will be reviewed in the next cycle of meetings, to take account of Member decisions on the specific items, and each year when the forecast is revised.

4. PLANNING ASSUMPTIONS

- 4.1** The following items need to be considered in order to update the forecast:

- Inflation : General inflation, pay inflation and assumed increases in fees and charges
- Interest Rates
- 2005/06 outturn (revenue and capital)
- Growth in the Council Tax base
- Growth in Government Support
- Minimum level of revenue reserves
- Service Changes 2006 to March 2011
- Service Variations post April 2011
- Other significant items.

4.2 Inflation

General inflation continues to be based on 2.5%. Pay inflation has been retained at 3% (the 2006 award was 3%), additional allowance has been included for fuel prices which continue to escalate and pension costs are based on the actuary's requirements up to 2010/11. It will be important to regularly review these figures each year, as Huntingdonshire's position on the edge of the buoyant Cambridge sub-region and national shortages of staff in key professions result in additional upwards pressures on pay levels and contract prices.

4.3 Interest Rates

Forecasting future interest rates is problematic at the best of times. It has been assumed that we will earn 5% on our investments this year, 5.25% in 2007/08 and 5% thereafter. This will be reviewed at later stages of the budget process. An extra 0.25% would produce an extra £100k next year but as reserves fall in later years the impact becomes insignificant.

The Interest rate for borrowing has been assumed at 4.35% when required.

4.4 2005/06 outturn (revenue and capital)

Reserves have been adjusted for the actual position at April 2006 and allowance made for the revenue and capital spending brought forward from 2005/06.

4.5 Growth in the Council Tax base

Historically it has been assumed that new properties being built will result in a 1% increase in the Council Tax that would be collected each year. Recent experience is showing that this is too high because changes in society are resulting in an increased demand for smaller houses (with lower levels of Council Tax) and more houses are being

occupied by single people who are eligible for a 25% discount. The growth factor has therefore been reduced to 0.5% from 2007/08 onwards.

4.6 Growth in Government Support

Members will recall that the Government are still withholding £547k of grant that the Council is due to receive in order to provide safety nets to Councils who are due to have their grant reduced. The speed with which we will get this is problematical but the new 2 year grant announcement gives us some expectation that we will get a further £180k next year.

Historically it has been assumed that grant will rise by a little less than inflation but there is a reasonable logic to assuming there will be some growth due to population increases as this is the main driver for the distribution of grant to District Councils. However this was not previously allowed for because the Grant System used to assume that all Councils levied their Council Tax at a standard rate which was higher than our low level, thus removing much of the benefit. Therefore whilst this assumption has apparently disappeared in the new grant system it would be sensible to be rather cautious in any allowance we make for any growth. The 2.25% annual increase has therefore been increased to 2.75%.

4.7 Minimum level of Revenue Reserves

The Forecast is currently based on allowing Revenue Reserves to fall to £2m and then to be retained at that level. The Council must have sufficient reserves to meet any unexpected difficulties without having to temporarily cut services until it can increase the following year's Council Tax or make alternative service cuts. The actual level is a matter for detailed analysis as they fall towards that level. In the meantime it should be noted that £2M will represent less than 4.5% of gross revenue expenditure by that time.

4.8 Service Variations 2006 to March 2011.

The approved MTP contains many service developments both revenue and capital. The capital schemes amount to £66M gross, £57M net of grants and contributions from other bodies.

4.9 Service Variations post March 2011

It is necessary to consider what general provision for service variations should be made beyond the level to March 2011 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 but £3.7M per year for capital investment (at current prices). This would be sufficient **for example** to fund:

	£000
Social Housing Grant	1,000
Leisure Centre Maintenance (300) and regular replacement of fitness equipment (200)	500
Disabled Facilities Grants	900
Vehicle Replacements	600
Other items	700
	3,700

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 savings.

4.10 Other significant items

Various items have emerged from last year's outturn and/or the current years monitoring that are significant enough to be included in the forecast at this time. They include:

- £1.5M of capital spending will be delayed from 2006/07 to 2007/08
- £170k permanent reduction in land charges income.
- A forecast additional cost of concessionary fares of £155k in 2006/07 and £185k in 2007/08. The Council should receive extra grant in 2008/09 to fund the new Government scheme from April 2008.
- Additional salary costs being properly rechargeable to capital.
- Extra interest on investments.

4.11 Items not taken account of

There are also some items that it is not possible to take account of at this stage but which may need to be brought into the MTP before it is approved next February if additional information becomes available in time. These include:

- The VAT position on off-street car parking which is the subject of continuing judgements and appeals. If it is finally resolved in favour of local authorities there will be a benefit of £150k per year.
- Increases in pension contributions post 2010/11 as the Government is consulting on changes to the benefits from the scheme and the level of contributions from employees. Any changes that emerge are likely to have some financial impact by 2012/13.
- The Government's planned White Paper on Local Government and the Lyon's Report on Local Government Funding.

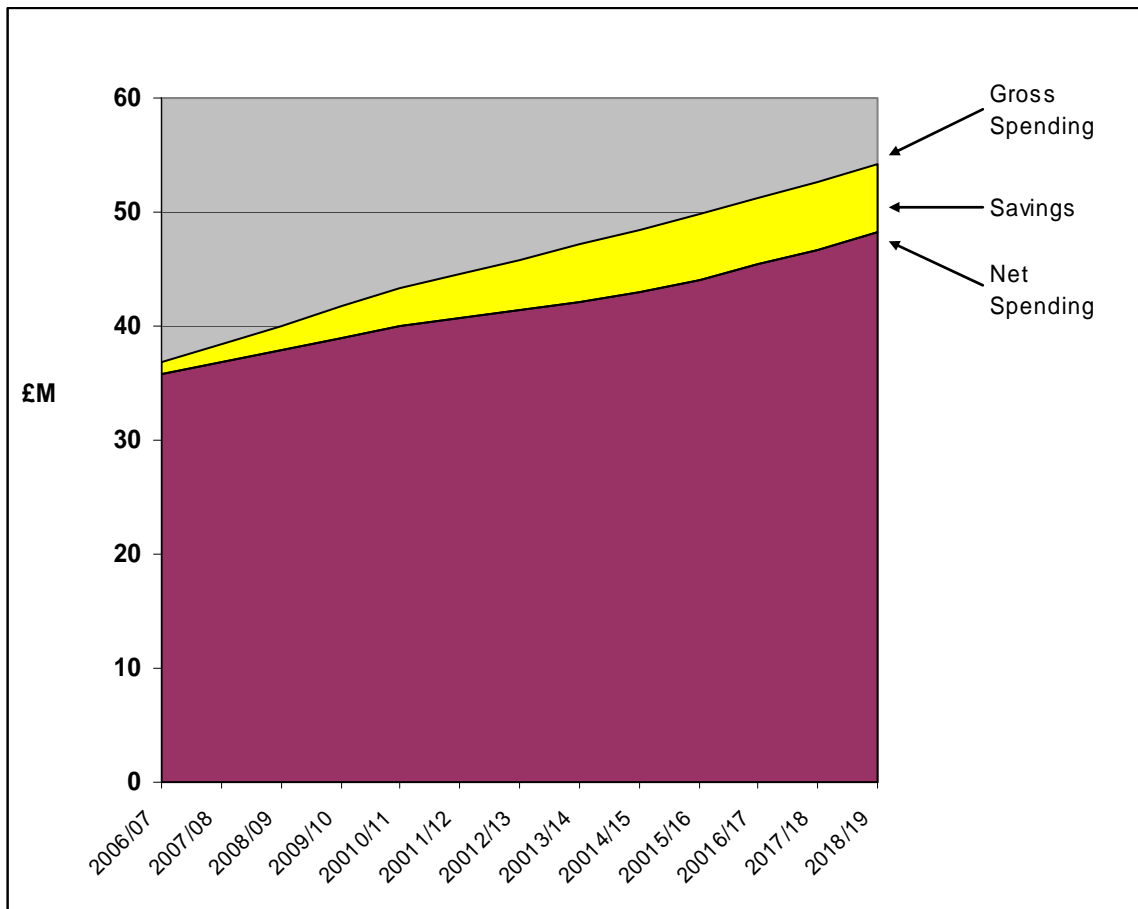
4.12 Sensitivity

The Financial Forecast takes a longer-term view and, within that time frame, many of its assumptions will turn out to be inaccurate and for this reason section 6 below considers how sensitive it is to variations in the main assumptions. 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

5. THE UPDATED FORECAST

- 5.1** The result of the updating described above is quite neutral in its affect. The overall total of the savings required has risen from £5.8M by 2016/17 (as reported to February Council) to £6.0M in 2017/18 before then falling slightly to £5.9M in 2018/19. In future reviews the profile can be fine-tuned to smooth this but, in the meantime, only minor variations to the use of reserves or to the Council Tax increases in particular years allows the planned programme of savings to be retained thus continuing

the strategy agreed by the Council last year. The chart below illustrates this and the actual figures are shown in Annex B.



5.2 However the savings identified for consideration in Annex A are only the starting point of the process and so officers will be reviewing the current approved MTP schemes and any other unavoidable adjustments to the budget during September ready for the next phase of the Budget/MTP process which will be the subject of reports to Overview and Scrutiny and Cabinet during November. Whilst revenue schemes make the most immediate contribution to savings there is also an impact from capital expenditure. In the short term each £1m of capital that can be saved reduces revenue spending by the interest that can be earned on that money, say £50k per year, but this eventually means less borrowing is needed which would save a further £40k per year in loan repayments.

6. SENSITIVITY AND RISKS

6.1 The figures in the Forecast have been adjusted for changes in some factors, to see if they have a significant impact. The table below shows the factor that has been adjusted and the resulting change in the level of savings that would be required:

	Variation in annual permanent savings required by 2018/19
Interest rates investment 0.25% variation from 2007/08	Negligible due to drop in investments already assumed
Interest Rates Borrowing 0.25% variation from 2007/08	£0.1M
General Inflation 0.25% variation from 2007/08	Negligible as long as fees and charges follow same trend
Pay Inflation 0.25% variation from 2007/08	£0.9M
Government Grant 0.25% variation from 2007/08	£0.4M Logically some chance that if pay inflation rises there is less chance of grant decreases
Capital Spend Extra £1M per year from 2011/12	£0.7M

- 6.2** The above table specifically considers the long term impact. For example a 0.25% reduction in investment rate would cost the Council around £100k next year and if nothing could be done to counteract this extra cost then revenue reserves would need to be used more quickly resulting in the targeted savings needing to be found sooner than planned. It would not have a permanent impact though as the forecast is already based on reserves falling to just £2m by 2017/18.
- 6.3** This Forecast is based on the Government maintaining the dual element to its capping regime that it has to date. This has a reasonable likelihood of continuing because the legislation requires capping to be primarily based on increases in a Council's Budget Requirement (i.e. net spending reduced by any funding from revenue reserves). At the same time every Government has been keen to headline capping in terms of the increase in Council Tax. Therefore capping criteria have been based on an Authority failing two tests i.e. the Council Tax increase has exceeded the Government's target **AND** the budget requirement has exceeded the Government's target. These two targets do not have to be the same percentage but the forecast is based on the Council being safe from capping as long as the Council Tax increase does not exceed 5% **AND** the budget requirement does not exceed 5%.
- 6.4** Government pronouncements will have to be reviewed each year before the Council Tax is formally set but it should be appreciated that, even then, the risk cannot be removed because the Government refuses to actually announce the capping level in advance of Council Tax levels being set.
- 6.5** Fortunately, the Council's reserves still allow flexibility if the Council were to be capped again.

7. CONCLUSIONS

- 7.1** Opportunities to increase funding from fees and charges are limited in some services due to statutory or commercial limitations. Council Tax increases are restricted due to potential capping by the Government.

- 7.2 Capital reserves will be used by 2008/09 and revenue reserves will be gradually reduced to leave a minimum level of £2M.
- 7.3 Borrowing will be used to fund capital spending once reserves have been used. This will be more expensive than simply losing interest on reserves.
- 7.4 Therefore continued savings must be found to achieve a balanced plan.
- 7.5 Annex A lists the savings for member consideration. If approved, these exceed the target for 2006/07 and 2007/08 and thus highlight that, at least for the time being, the updated Forecast, highlighted in the chart in paragraph 5.1 and detailed in Annex B, is realistic.
- 7.6 The changes to the forecast have been quite neutral allowing the previously agreed savings profile to be maintained with just an extra £100k being needed by 2018/19.
- 7.7 Significant savings are still required in later years and so the budget and MTP schemes, both revenue and capital, will be reviewed ready for the Budget/MTP report in November.
- 7.8 Cabinet will have the comments from the Overview & Scrutiny Committee available when they consider this report.

8. RECOMMENDATIONS

8.1 Cabinet is recommended to recommend to Council:

- **That the strategy of a steady profile of savings as shown in the chart in Paragraph 5.1 and detailed in Annex B be retained.**
- **The savings items in Annex A that they support.**
- **That they note that Officers will review all budgets and MTP schemes (revenue and capital) to identify any further opportunities for savings.**

ACCESS TO INFORMATION ACT 1985

Source Documents:

1. Working papers in Financial Services
2. 2005/06 Outturn, 2006/07 Revenue Budget and the 2007/2011 MTP

Contact Officer:

Steve Couper, Head of Financial Services

☎ 01480 388103

ANNEX A

Proposed Saving		Expected Revenue Saving					Comments	Risk
		2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000		
Increase Court fees	JB	45	45	45	45	45	Higher costs being recovered from debtors.	Already implemented.
Revenues and Benefits	JB	12	12	12	12	12	Minor reductions	Little
Finance	SC	23	23	23	23	23	Minor reductions	Little
ICT Infrastructure	CH	40	40	40	40	40	No expansion in Cambs direct & CCN contracts for call centre.	
Call Centre	CH	17	17	17	17	17	Minor reductions	Little
Recruit fewer Call Centre Advisors	CH	38	38	38	38	38	Recruit only 4 not 6 new advisors. The reduced capacity to transfer services will mean that for those services that are not transferred there will be no corresponding improvement in customer service.	We may obtain a lower level of cost reduction in back office functions.
Change District elections to all out every 4 years starting in 20010/11	RR					-54	Subsequent savings of £87k per year in non-election years	
Reduce Cabinet membership by one	RR	3	7	7	7	7		
Review Conference attendances for Members and Officers	RR	0	10	10	10	10		
Delete Admin support post	RR	20	20	20	20	20		
Savings from share of Community Services admin costs relating to Leisure	RR	0	10	10	10	10		
Reduction in Leisure Centre Trainees (2)	RR	10	20	20	20	20		
Increase income from direct debit swimming lessons	RR	30	30	30	30	30		
Replace St Ivo Shooting Range with extended Fitness Suite or similar	RR	0	25	75	75	75	Net of lost interest on £500k capital investment required	
Increase Leisure Centre income through increase to Advantage prices for all member categories	RR	0	25	25	25	25		adverse public reaction – possible loss of custom

Proposed Saving			Expected Revenue Saving					Comments	Risk
			2006/07	2007/08	2008/09	2009/10	2010/11		
			£000	£000	£000	£000	£000		
Increase other leisure activity prices above general rate of inflation	RR		0	20	20	20	20		
Reduce business support publications: transfer to District Wide, enhanced Web-service	IL		10	10	10	10	10	Further consideration to be given also to reducing volume of other publications by way of more intensive use of "District Wide".	
More advertising in "District Wide"	IL		10	10	10	10	10		
Cease employing Modern Apprentices	PD		10	40	40	40	40		
Delete Offices Renewals Fund annual contribution	RP		57	57	57	57	57		
Cover vacant Architectural Technician Post with modern apprentice.	RP		4	7	7	7	7	A less experienced Officer in post. Some loss of capacity.	None
Rescheduling of Refuse/Recycling collection arrangements	RW	Min	0	78	100	100	100	Efficiency Improvement	Dependant on results of consultants report
		Max	0	200	250	250	250		
Reduced refuse tipping costs	RW		46	46	46	46	46	Already Agreed	None
PCSO contribution	SL		110	325	325	325	325	Transfer of costs to Police.	Nil
Reduce Emergency Planning training	SL		5	10	10	10	10	May be funded by County	
Delete contribution to PCT for Director of Public Health	SL		0	9	9	9	9	PCT restructuring, HDC not committed to contributing to new Countywide DPH)	
Reduction in Grants – Community Initiatives	SL		0	50	50	50	50	Loss of service to charitable groups. No new grants above existing commitments.	
Review of Car Parking Strategy	SI		Nil	50	200	200	200	Anticipated extra income following Strategy Review	This would require charging for some long stay.
Reduction in Planning Conservation Grants	SI		35	35	35	35	35	Less grant aid to buildings at risk and a reduction in the pro-active conservation work undertaken.	None
Efficiency improvements in planning	SI		10	30	30	30	30	Efficiencies resulting in cost savings.	Increases in applications could require further spending
Consultancy costs in Planning	SI		0	18	18	18	18	Certain costs have already been committed for this year.	Changing circumstances could generate new consultancy demands.

Proposed Saving			Expected Revenue Saving					Comments	Risk
			2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000		
Deletion of part time housing post	SP		0	10	10	10	10	Already agreed by Employment Panel	Minimum impact (long term sick) 06/07 & 07/08 ok, but future years will depend on changes in demand and Govt support Minimal impact (current vacancy)
DFGs - £320k reduction in Capital budget for two years	SP		4	12	16	16	16	Demand less than budgeted. Needs reviewing annually.	
Deletion of part-time Housing post - Housing Needs Assistant	SP		0	10	10	10	10	Some loss of service - registering applications in peak periods (funding summer student 06/07 for specific tasks)	
Savings Proposals		<i>Min</i>	539	1,149	1,375	1,375	1,321		
		<i>Max</i>	539	1,271	1,525	1,525	1,471		
Other variations identified to date (- figures are extra cost)									
Sapley Square lost rent			-126						
Reduced land Charges income			-170	-170	-170	-170	-170		
Increased fuel costs			-70	-70	-70	-70	-70		
Increased NNDR costs for HDC properties			-46	-46	-46	-46	-46		
Revenue staff charged to capital			219	200	200	200	200		
Interest			290	200	200	200	200		
Turnover savings			100	70	70	70	70	subject to Head of Community Services Post not being filled	
Concessionary Fares			-155	-185				Assumed extra grant may remove/mitigate cost from 2008/09	
COMBINED POSITION		<i>Min</i>	581	1,148	1,559	1,559	1,505		
		<i>Max</i>	581	1,270	1,709	1,709	1,655		
Savings Targeted for this exercise			574	1,123	1,700	1,800	1,800		
Savings Target Per 2006/07 Budget/MTP			574	1,123	1,709	2,346	2,898	<i>Net of savings already identified in the 2006/07 budget/MTP</i>	

SEPTEMBER 2006 FORECAST		BUDGET	MTP				FORECAST						
	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
2006/7 BUDGET/MTP before savings	19,331	20,706	22,610	24,999	26,858	27,820	28,999	30,160	31,324	32,539	33,727	35,085	36,446
Interest and Borrowing Variations	-325	-393	-237	-211	-146	-135	-100	-86	-71	-57	-40	-32	-36
Inflation Variations	112	125	164	208	78	59	85	155	141	174	256	89	52
Other Variations	178	131	-54	-54	-54	146	146	146	146	146	146	146	146
Forecast Total before savings	19,296	20,569	22,483	24,942	26,736	27,890	29,130	30,375	31,540	32,802	34,089	35,288	36,608
2006/07 Total Savings Required	-1,026	-1,573	-2,157	-2,792	-3,342	-3,892	-4,442	-4,992	-5,492	-5,776	-5,826	-5,764	-5,696
Extra Savings Now Required	0	0	0	0	0	0	0	0	0	0	0	-225	-229
Revised Savings Total	-1,026	-1,573	-2,157	-2,792	-3,342	-3,892	-4,442	-4,992	-5,492	-5,776	-5,826	-5,989	-5,925
NEW FORECAST	18,270	18,996	20,326	22,150	23,394	23,998	24,688	25,383	26,048	27,026	28,263	29,299	30,683
% increase	17.8%	4.0%	7.0%	9.0%	5.6%	2.6%	2.9%	2.8%	2.6%	3.8%	4.6%	3.7%	4.7%
Deficit Funded from Revenue reserves	1,491	1,057	1,489	2,372	2,627	2,193	1,792	1,343	805	521	433	77	0
Budget Requirement	16,779	17,939	18,837	19,778	20,767	21,805	22,896	24,040	25,243	26,505	27,830	29,222	30,683
% increase	9.8%	6.9%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
FUNDING													
Government Support	-10,892	-11,650	-12,162	-12,684	-13,033	-13,391	-13,759	-14,138	-14,526	-14,926	-15,336	-15,758	-16,192
Collection Fund Deficit	74	0	0	0	0	0	0	0	0	0	0	0	0
Council Tax	-5,961	-6,289	-6,674	-7,095	-7,734	-8,414	-9,136	-9,903	-10,717	-11,579	-12,494	-13,463	-14,491
COUNCIL TAX LEVEL	£104.69	£109.91	£116.05	£122.75	£133.15	£144.13	£155.73	£167.95	£180.85	£194.43	£208.75	£223.83	£239.72
% increase	5.0%	5.0%	5.6%	5.8%	8.5%	8.2%	8.0%	7.8%	7.7%	7.5%	7.4%	7.2%	7.1%
Remaining revenue reserves EOY	16,709	15,652	14,163	11,791	9,164	6,971	5,179	3,836	3,031	2,510	2,077	2,000	2,000
Remaining capital reserves EOY	28,688	11,591	0	0	0	0	0	0	0	0	0	0	0
Interest included in net budget	-3,110	-2,433	-1,483	-968	-851	-732	-632	-553	-499	-468	-449	-441	-446