

**BUDGET AND MEDIUM TERM PLAN 2008-2013  
DRAFT PROPOSALS**

**(Report by the Head of Financial Services)**

**1 PURPOSE**

- 1.1 The purpose of this report is to allow the Cabinet to review the draft 2008/09 budget, the Medium Term Financial Plan (MTP) to 2012/13 and the longer term financial forecast to 2018/19.

These are all based on the previous assumptions on Revenue Support Grant (RSG) that the Council will receive.

- 1.2 Once approved by Council in December, these drafts will be used to produce the final budget and MTP for the following 4 years for consideration and approval by Council in February.
- 1.3 Until the position on RSG for the next 3 years is known considerable uncertainty on the Council's financial plan will remain. It is expected that the RSG information for the full 3 year period will not be available until the new year. This will then allow the final decisions to be made on any further spending adjustments, use of reserves and the level of Council Tax.

**2. BACKGROUND**

- 2.1 Cabinet will recall the Financial Strategy Report that they considered at their 6 September meeting which highlighted certain increased costs and the major uncertainty on RSG levels over the next 3 years. The provisional grant announcement for 2008/09 may not be received by the date of this meeting but, if it is, an update will be tabled.
- 2.2 Since the production of the Financial Strategy, Heads of Service have reviewed their budgets and 5 year service Visions to propose various adjustments to the existing approved MTP. Those proposals supported by the Chief Officers' Management Team have been included in this report together with any necessary technical adjustments.

### 3. SUMMARY

3.1 The following table summarises the Council's financial position over the MTP period:

FINANCIAL SUMMARY	FORECAST	BUDGET	MTP			
	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
<b>DRAFT SPENDING TOTAL</b>	<b>18,784</b>	<b>20,818</b>	<b>22,640</b>	<b>24,584</b>	<b>25,488</b>	<b>24,975</b>
Use of revenue reserves	815	1,952	2,833	3,789	3,655	2,053
Remaining revenue reserves EOY	18,640	16,688	13,855	10,066	6,411	4,358
Budget Requirement	17,969	18,866	19,807	20,795	21,833	22,922
% increase		4.99%	4.99%	4.99%	4.99%	4.99%

Total Spending Adjustments as yet unidentified		-543	-1,319	-2,145	-2,759	-5,071
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Forecast Capital Spending	14,302	15,039	14,084	7,637	7,394	5,009
Remaining capital reserves EOY	16,040	2,601	0	0	0	0
Accumulated Borrowing EOY			10,383	16,920	23,215	27,124
Net Interest and Borrowing Costs	-2,712	-1,984	-786	234	942	1,502

**note:** The 2007/08 forecast is funded by £564k from the "delayed projects reserve" and £251k from general revenue reserves. Both reserves are treated as revenue reserves for financial planning purposes.

A fuller summary including the corresponding figures for the Forecast Period is shown in Annex A.

- 3.2 The current approved MTP highlighted the strategy of increasing Council Tax by more than 5% (5.7% in 2008/09) as long as the increase in budget requirement was less than 5% which accorded with the Government's past practice of operating capping. 2008/09 is the first year when this strategy can impact and so this section takes a different approach to previous years.
- 3.3 The Plan is based on two key principles. Firstly, that the level of revenue reserves should not be reduced more quickly than approved in the current plan i.e. £4.4m will still be available at the end of 2012/13. Secondly, a continuation of limiting the increase in budget requirement to just under 5%. This results in an increase in spending adjustment needed in 2012/13 (see para. 4.4 below).
- 3.4 Based on a Budget Requirement increase of 4.99%, Council Tax increases greater than 5% are inevitable if Government Grant increases by less than 5%. The following table gives some examples based on the budget requirement of £18.866m for 2008/09:

RSG		Council Tax		
Increase	Total	Total	Rate	Increase
%	£000	£000	£	%
0.0%	11,657	7,209	£ 124.89	13.6%
1.0%	11,774	7,092	£ 122.87	11.8%
2.0%	11,890	6,976	£ 120.85	10.0%
3.0%	12,007	6,859	£ 118.83	8.1%
4.0%	12,123	6,742	£ 116.81	6.3%
5.0%	12,240	6,626	£ 114.79	4.4%

- 3.5 It is therefore important to limit increases in budget requirement because the likely low increases in RSG will force high Council Tax increases and also increase the likelihood of capping.
- 3.6 It would of course be technically possible to increase the use of revenue reserves next year to reduce the level of Council Tax rise but this would reduce the flexibility which currently exists to introduce spending adjustments gradually to ensure they are the most effective with least impact on service provision.
- 3.7 Much of the current uncertainty, compounded by the delays resulting from the new Comprehensive Spending Review, will be resolved by January and there may also be some Government pronouncements that will provide clues as to how any capping limits may apply.

#### 4. The Key Elements

- 4.1 The total increase in spending between the 2007/08 budget and the 2008/09 draft budget of £1,036k (5.3%) is shown in the table below:

DRAFT SPENDING TOTAL	DRAFT BUDGET	
	2008/09	
	£000	£000
2007/08 Approved Budget		19,534
Approved MTP adjustments for 2008/09	+1,286	
Proposed MTP Variations	295	
<i>Rephasing (includes items delayed from 2007/08)</i>	81	
<i>No extra cost or saving</i>	-60	
<i>Extra Cost</i>		
<i>Unavoidable</i>	52	
<i>High Priority - Other</i>	211	
<i>Technical</i>	11	
<b>Other Variations</b>	<b>-297</b>	
<i>Inflation on revenue variations</i>	-13	
<i>Forecast Outturn</i>		
<i>Interest and Borrowing</i>	-284	
<b>TOTAL VARIATIONS</b>		<b>1,284</b>
<b>DRAFT SPENDING TOTAL</b>		<b>20,818</b>
% increase on 2007/08 budget		6.6%

- 4.2 A summary of the existing MTP and proposed variations together with the new appraisal forms are available on the Council's website and via a link on the Member's section of the intranet. The final budget report will contain a list of the 2007/08 and 2008/09 starts that will require further approval from COMT or Cabinet before proceeding.

4.2 The total variation is summarised below by service area:

<b>SUMMARY OF VARIATION</b>	
	<b>£000</b>
Refuse and Recycling	88
Leisure Centres	-171
Planning (rephasing of planning delivery grant)	266
Community Initiatives	52
Housing	76
Housing Benefits	67
Concessionary Fares	-166
Car Parking	-209
Environmental Strategy	55
Land Charges	32
PFH/Eastfield House	222
IT	123
HR and Training	50
Technical (mainly inflation and interest)	714
Other Services	85
<b>TOTAL</b>	<b>1,284</b>

4.3 In addition to the above variations a number of schemes are to be funded from existing budgets. These will be the first call on sums identified in the review of existing budgets referred to in para. 5.2 below. The total for these items is shown below:

<b>TO BE FUNDED FROM EXISTING BUDGETS</b>	<b>BUDGET</b>	<b>MTP</b>			
	2008/09	2009/10	2010/11	2011/12	2012/13
	£000	£000	£000	£000	£000
Proposals not included in the MTP that will be met from existing budgets.	<b>148</b>	<b>187</b>	<b>146</b>	<b>140</b>	<b>135</b>

## 5. Targeted Spending Adjustments

The table below shows the target set in the current approved MTP and the sums already identified:

<b>TARGETED SPENDING ADJUSTMENTS</b>	<b>BUDGET</b>	<b>MTP</b>			
	2008/09	2009/10	2010/11	2011/12	2012/13
	£000	£000	£000	£000	£000
Previously approved spending adjustments required not yet permanently identified	-643	-1,369	-2,195	-2,809	-3,579
Add: Further spending adjustments now required	0				-1,492
<b>TOTAL</b>	<b>-643</b>	<b>-1,369</b>	<b>-2,195</b>	<b>-2,809</b>	<b>-5,071</b>
Less: Assumed level of general underspendings	-100	-50	-50	-50	
<b>STILL TO BE IDENTIFIED</b>	<b>-543</b>	<b>-1,319</b>	<b>-2,145</b>	<b>-2,759</b>	<b>-5,071</b>

Figures for subsequent years are shown in Annex B

The following actions are underway to identify how these adjustments will be achieved, particularly to confirm the requirement for 2008/09 before the budget is finalised in February.

Existing budgets are being reviewed in the light of historic underspendings to determine whether further spending proposals can be met from existing resources. This will be the main source for identifying the adjustments needed for 2008/09.

New and potential sources of income, including Government specific grants, will continue to be investigated to ensure opportunities for funding existing spending plans or enhancing services at no additional cost are maximised.

A programme of Business Transformation reviews will be introduced to ensure that efficiencies are identified and resulting savings made.

## **6. Risks and Opportunities**

6.1 The above figures do not yet include the following items which will need to be brought into the MTP when they become available:

- The grant proposals for 2008/09 to 2010/11 and subsequent assumptions. (Potentially significant loss but see paragraph 6 below)
- Final review of future interest rates. Current assumptions are 5.5% 2008/09, 5.25% 2009/10 and 5% thereafter. (0.5% reduction in interest rates from April 2008 would cost the Council £160k in 2008/09 but this would steadily fall as reserves are utilised so the overall cost in the period to March 2019 would be £530k)
- The Middle Level Drainage Board is proposing to construct a major new pumping station on its main drain at St Germans, south west of Kings Lynn. At some stage, a proportion of the cost will fall on this Council via increased Drainage Board rates or special levies.
- Any benefit received under the Government's Local Authority Business Growth Incentive scheme (which allows authorities a portion of increases in business rates over and above a norm) for 2006/07 onwards. It is expected that we will receive a payment for 2007/08 though it is difficult to estimate how much will be received and when. (Could be as much as £400k). There will be no further grant in 2008/09.
- Any S106 monies that can be used to finance existing planned expenditure. (Unlikely to be significant)
- Any variation between the Specific Grant for Concessionary Fares and the, as yet, unquantifiable additional cost. (Too early to assess).
- Any contribution from the County Council towards the Capital Maintenance of Leisure Centres (This could be in the region of a £1m capital contribution).

- 6.2 The Council's "Budget Requirement" (net revenue spending less use of reserves) is funded from Government Support (RSG) and the Council Tax.

The Government will cap (force a retrospective reduction in its Council Tax) any Council that has a Council Tax increase **and** a Budget Requirement increase in excess of levels it will determine after all Council Taxes have been set. There will always be a risk that an individual Council is over optimistic on the levels that the Government will decide are acceptable. Last year's assumption was that capping would only apply to those Councils that increased both their budget requirement **and** their council tax by more than 5%. The plan therefore limited the Council Tax rise to 5% in 2006/07 but the Budget Requirement increase to 5% (4.99%) thereafter. As explained in paragraph 3.3 above the level of RSG will have a significant impact on this and so formal consideration of this aspect will have to be deferred until January/February when the next three years grant figures are known.

## **7. CSR07 and RSG**

- 7.1 Details of the Government's Comprehensive Spending Review 2007 (CSR07) were announced in October. The settlement has been described by the LGA as the "worst financial settlement for councils in a decade". In total it provides real terms increases of 1.5%, 0.8% and 0.7% over the next three years but this is considered insufficient to "deliver the new services promised by Government, or meet the cost of providing services to increasing numbers of older people and meeting the increasing cost of waste management".
- 7.2 If this Council were to receive such increases they would be broadly in line with our previous forecast but the totals are likely to mask transfers of funding between services. For example if a major service like education or Social Services were to receive extra funding then District Council funding would be increased by less than the rate of inflation.
- 7.3 There is also the question of changes to the allocation formula itself, particularly in relation to the area cost adjustment, which could lose the Council £0.5m per year.
- 7.4 It has now been decided that the extra funding for Concessionary Fares changes from April 2008 will not be included in RSG but provided via a specific grant, at least for the next three years. A consultation paper has been received which indicates the Council would receive between £197k and £368k depending on the formula chosen though there are recent concerns about the robustness of the data used. Likely costs of the new scheme are unlikely to emerge, with any certainty, until some months into the new financial year and so the assumption for this report is that the grant will be sufficient.
- 7.5 CSR07 also introduces a new Performance Indicator which will require authorities to show whether they have achieved the Government's new cashable savings target of 3% per year from 2008/09 to 2010/11.

## **8. CONCLUSIONS**

- 8.1 Whilst the Council's spending plans have been thoroughly reviewed there remain two fundamental uncertainties – the Government's attitude to capping and the level of Grant that we will receive. These are intrinsically linked in that a very poor settlement will make it very difficult for many Councils to achieve low Council Tax increases.
- 8.2 It is hoped that there will be some information on the provisional grant settlement before the meeting date but it has been suggested that this may only include the first year of the three year settlement and the remaining years will follow later.
- 8.3 Work is ongoing to identify the required spending adjustments for 2008/09 and prepare service level budgets for formal approval in February.

## **9. RECOMMENDATIONS**

- 9.1 Cabinet are asked to:
- Highlight to Council the implications for Council Tax levels of low RSG levels (para. 3.3)
  - Recommend to Council the policy of limiting increases in Budget Requirement to 4.99%
  - Recommend to Council this draft Medium Term Financial Plan to Council as the basis for the production of the 2008/09 budget, the revised MTP for 2009/10 to 2012/13 and the financial plan to 2018/19.

### **Annexs**

- A Financial Summary to 2018/19  
B Spending Adjustments still to be identified

### **ACCESS TO INFORMATION ACT 1985**

#### Source Documents:

1. Working papers in Financial Services
2. 2007/08 Revenue Budget and the 2008/12 MTP
3. Financial Strategy Report

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FINANCIAL SUMMARY	FORECAST	BUDGET	MTP				FORECAST					
	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
<b>2007/08 BUDGET/MTP</b>	<b>19,534</b>	<b>20,820</b>	<b>22,462</b>	<b>23,716</b>	<b>24,052</b>	<b>24,456</b>	<b>24,900</b>	<b>25,750</b>	<b>26,985</b>	<b>28,252</b>	<b>29,429</b>	<b>30,734</b>
<b>MTP Variations*</b>	<b>-616</b>	<b>295</b>	<b>435</b>	<b>955</b>	<b>1,373</b>	<b>1,841</b>	<b>2,257</b>	<b>2,665</b>	<b>3,183</b>	<b>3,718</b>	<b>4,097</b>	<b>4,703</b>
<i>Rephasing</i>	-246	81	-65	-166	-144	-171	-186	-186	-186	-186	-186	-186
<i>No extra cost or saving</i>	-334	-60	-103	-207	-221	-237	-294	-227	-227	-227	-227	-227
<i>Extra Cost</i>												
<i>Unavoidable</i>	-11	52	83	306	445	522	558	558	558	558	558	558
<i>High Priority - Added Years</i>	0	0	5	13	32	126	204	204	204	204	204	204
<i>High Priority - Other</i>	5	211	231	241	196	191	191	191	191	191	191	191
<i>Technical</i>	-30	11	284	768	1,065	1,410	1,784	2,125	2,643	3,178	3,557	4,163
<b>Other Variations</b>	<b>-134</b>	<b>-297</b>	<b>-257</b>	<b>-87</b>	<b>63</b>	<b>170</b>	<b>204</b>	<b>247</b>	<b>271</b>	<b>279</b>	<b>303</b>	<b>339</b>
<b>Additional Spending Adjustments now required</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1,492</b>	<b>-2,476</b>	<b>-2,856</b>	<b>-3,911</b>	<b>-4,397</b>	<b>-4,587</b>	<b>-5,074</b>
<b>NEW FORECAST</b>	<b>18,784</b>	<b>20,818</b>	<b>22,640</b>	<b>24,584</b>	<b>25,488</b>	<b>24,975</b>	<b>24,885</b>	<b>25,806</b>	<b>26,528</b>	<b>27,852</b>	<b>29,242</b>	<b>30,702</b>
Use of revenue reserves	815	1,952	2,833	3,789	3,655	2,053	819	539	0	0	0	0
<i>Remaining revenue reserves EOY</i>	<i>18,640</i>	<i>16,688</i>	<i>13,855</i>	<i>10,066</i>	<i>6,411</i>	<i>4,358</i>	<i>3,539</i>	<i>3,000</i>	<i>3,000</i>	<i>3,000</i>	<i>3,000</i>	<i>3,000</i>
<b>Budget Requirement</b>	<b>17,969</b>	<b>18,866</b>	<b>19,807</b>	<b>20,795</b>	<b>21,833</b>	<b>22,922</b>	<b>24,066</b>	<b>25,267</b>	<b>26,528</b>	<b>27,852</b>	<b>29,242</b>	<b>30,702</b>
% increase		<b>4.99%</b>	<b>4.99%</b>	<b>4.99%</b>	<b>4.99%</b>	<b>4.99%</b>	<b>4.99%</b>	<b>4.99%</b>	<b>4.99%</b>	<b>4.99%</b>	<b>4.99%</b>	<b>4.99%</b>
<b>FUNDING</b>												
Government Support	-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	-7	0	0	0	0	0	0	0	0	0	0	0
Council Tax	-6,313	-6,704	-7,124	-7,763	-8,442	-9,163	-9,928	-10,741	-11,602	-12,516	-13,484	-14,510
<b>COUNCIL TAX LEVEL</b>	<b>£109.91</b>	<b>£116.14</b>	<b>£122.81</b>	<b>£133.15</b>	<b>£144.08</b>	<b>£155.61</b>	<b>£167.77</b>	<b>£180.60</b>	<b>£194.11</b>	<b>£208.35</b>	<b>£223.35</b>	<b>£239.15</b>
% increase	<b>5.0%</b>	5.7%	5.7%	8.4%	8.2%	8.0%	7.8%	7.6%	7.5%	7.3%	7.2%	7.1%

<b>Forecast Capital Spending</b>	<b>14,302</b>	<b>15,039</b>	<b>14,084</b>	<b>7,637</b>	<b>7,394</b>	<b>5,009</b>	<b>5,133</b>	<b>5,263</b>	<b>5,396</b>	<b>5,532</b>	<b>5,671</b>	<b>5,812</b>
Remaining capital reserves EOY	16,040	2,601	0	0	0	0	0	0	0	0	0	0
Accumulated Borrowing EOY	0	0	10,383	16,920	23,215	27,124	31,156	35,319	39,615	44,047	48,618	53,330
Net Interest and Borrowing Costs	-2,712	-1,984	-786	234	942	1,502	1,879	2,210	2,526	2,826	3,128	3,434

TARGETED SPENDING ADJUSTMENTS	BUDGET	MTP				FORECAST					
	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
Previously approved spending adjustments required not yet permanently identified	-643	-1,369	-2,195	-2,809	-3,579	-4,349	-4,765	-4,624	-4,624	-4,624	-4,760
<b>Add: Further spending adjustments now required</b>	<b>0</b>				<b>-1,492</b>	<b>-2,476</b>	<b>-2,856</b>	<b>-3,911</b>	<b>-4,397</b>	<b>-4,587</b>	<b>-5,074</b>
<b>TOTAL</b>	<b>-643</b>	<b>-1,369</b>	<b>-2,195</b>	<b>-2,809</b>	<b>-5,071</b>	<b>-6,825</b>	<b>-7,621</b>	<b>-8,535</b>	<b>-9,021</b>	<b>-9,211</b>	<b>-9,834</b>
Less: Assumed level of general underspendings	-100	-50	-50	-50							
<b>STILL TO BE IDENTIFIED</b>	<b>-543</b>	<b>-1,319</b>	<b>-2,145</b>	<b>-2,759</b>	<b>-5,071</b>	<b>-6,825</b>	<b>-7,621</b>	<b>-8,535</b>	<b>-9,021</b>	<b>-9,211</b>	<b>-9,834</b>