

**BUDGET AND MTP PROCESS 2009-2014**

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

**1 PURPOSE**

- 1.1** The purpose of this report is to propose the approach, stages and timing for the review and approval of the financial strategy, the 2009/10 budget and the 2010/14 Medium Term Plan.

**2 BACKGROUND**

- 2.1** The Medium Term Plan approved in February 2008 provides a detailed budget for 2008/9 and detailed variations for the following 4 years. The financial strategy, also approved in February, forecasts the financial position through to 2018/9. This data forms the starting point for the creation of a new budget each year.
- 2.2** Whilst the budget for 2008/9 is balanced (in the sense that Council Tax and Government Grant is sufficient to cover the Council's net expenditure after an approved £1.6m is used from reserves) with no need to identify further spending adjustments, this is not true of the following years. In the last two years there has been a target to propose a balanced budget with necessary spending adjustments already identified and this has been achieved. In order to produce the same balanced budget position for 2009/10 there is a need to identify £0.5m of additional income or reduced spending. The situation for subsequent years is more onerous in that **further** additional income or reduced spending of £0.5m, £1m and then £1.6m will be required although there is a longer time period for this to be achieved.
- 2.3** The process of finalising our financial result for 2007/8 is currently underway, however recent forecasts suggest that our performance has been considerably better than originally budgeted in February 2007. Whilst the budget was based on using £1.5m from reserves it is now expected that a small surplus will be achieved. This improvement has been reported to Cabinet quarterly along with the causes of the continuing improvement.
- 2.4** Members will be aware of the Council's track record of beating the budget. A detailed analysis of the variances on this year's budget will be presented to Cabinet with the final results in July. We can, however, already anticipate that some of the improvements can be built into next year's budget although others, such as the significant LABGI receipt will not be repeated on the same scale and additional grants of £250k are already assumed. Thus some improvement in next year's budget can be anticipated without having to introduce changes to service plans. Whilst it is likely that this improvement could make a useful contribution towards identifying the £0.5m 'gap' for 2009/10, it is unlikely to contribute to the increasing gap in subsequent years.

2.5 The shortfall for the MTP period is shown below:

<b>Forecast Total</b>				
	2009/10	2010/11	2011/12	2012/13
	£M	£M	£M	£M
Net Expenditure	22.7	25.3	26.9	28.7
Funding from Government Grants and Council Tax	19.6	20.4	21.2	22.2
<b>Shortfall</b>	<b>3.1</b>	<b>4.9</b>	<b>5.7</b>	<b>6.5</b>
To be met from:				
Spending Adjustments not yet identified	0.5	1.0	2.0	3.6
Reserves	2.6	3.9	3.7	2.9

2.6 The latest forecast of revenue reserves at the end of 2008/09 is about £18.5m and so by the end of 2012/13 they will already have fallen to £5.4m. £3m is considered to be a minimum level for a Council of our size and hence planning further significant drawings is not advised.

2.7 The table below summarises the key reasons as to why the funding gap is increasing from the position in this year's budget. Further detail is provided in Annex A

<b>Forecast variations from 2008/09</b>				
	2009/10	2010/11	2011/12	2012/13
	£M	£M	£M	£M
<b>COSTS RISING</b>				
Pay inflation	1.5	3.1	4.4	5.8
Other expenditure inflation	0.4	0.8	1.2	1.7
Planned MTP variations	-0.6	-0.7	-0.8	-1.1
Falling interest and growing borrowing	1.3	2.3	3.0	3.6
	<b>2.6</b>	<b>5.5</b>	<b>7.8</b>	<b>10.0</b>
<b>INCOME RISING MORE SLOWLY</b>				
RSG and Council Tax	-0.8	-1.6	-2.5	-3.4
Income inflation	-0.3	-0.7	-1.3	-1.6
	<b>-1.1</b>	<b>-2.3</b>	<b>-3.8</b>	<b>-5.0</b>
<b>SHORTFALL RISING</b>	<b>1.5</b>	<b>3.3</b>	<b>4.1</b>	<b>5.0</b>
<b>FUNDED FROM</b>				
Additional use of Reserves	-1.0	-2.3	-2.1	-1.3
<b>Savings Target</b>	<b>-0.5</b>	<b>-1.0</b>	<b>-2.0</b>	<b>-3.6</b>

### 3 PROCESS AND TIMETABLE

3.1 As in previous years, the **first stage** of the process is to review the Council's longer term financial strategy. This will adjust the figures approved by the Council in February for inflation, interest rates, the 2007/08 outturn and any other unavoidable significant issues. It will thus enable the Council to confirm or revise the existing spending adjustment

targets and set any criteria for the review of existing MTP schemes and the inclusion of additional ones.

- 3.2** It is anticipated that this stage will address some of the £0.5m gap in the 2009/10 forecast but that some further work will be necessary to balance this budget and substantially more for later years.
- 3.3** The resulting Financial Forecast report will be considered on the following dates

Scrutiny	Cabinet	Council
<b>2 September</b>	<b>4 September</b>	<b>24 September</b>

- 3.4** The **second stage** will be to review the service budgets implied by the financial forecast whilst also incorporating proposed changes to service plans. The report will set out the changes (including efficiencies) to be introduced to service budgets and any proposals for enhancements to the level of provision which will require additional funding.
- 3.5** Cabinet Members will be involved in the production of the proposed service budgets and financial plans relating to their portfolios over the August to October period in order that they are able to comment to Cabinet upon their proposed service budgets.
- 3.6** The resulting Draft budget, MTP and Financial Strategy report will be considered on the following dates:

Scrutiny	Cabinet	Council
<b>11 November</b>	<b>20 November</b>	<b>3 December</b>

- 3.7** The **final stage** will take account of any, presumably minor, adjustments to the grant settlement figures together with any other necessary final adjustments required. It will show the final budget by service and will allow the Council to formally adopt the budget and set the level of Council Tax for 2009/10.
- 3.8** This report will be considered on the following dates

Scrutiny	Cabinet	Council
<b>27 January</b>	<b>29 January</b>	<b>18 February</b>

#### **4. CONCLUSIONS**

- 4.1** The budget/MTP process will need to be increasingly challenging due to the significant value of spending adjustments (additional income or reduced spending) that must be identified over the coming years.

## **5. RECOMMENDATION**

**The Cabinet is recommended to:**

- **approve the timetable and stages for considering amendments to service plans, the financial strategy, budget and MTP**
- **confirm the importance of identifying efficiency savings**

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

2008/09 Revenue Budget and the 2009/013 MTP

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	Forecast Variations from 2008/09 Approved Budget										
	2009/ 2010 £000	2010 2011 £000	2011 2012 £000	2012 2013 £000	2013 2014 £000	2014 2015 £000	2015 2016 £000	2016 2017 £000	2017 2018 £000	2018 2019 £000	
	Refuse and Recycling	-35	-43	-51	-51	-51	-51	-51	-51	-51	
Public Conveniences	-32	-32	-32	-32	-32	-32	-32	-32	-32	-32	Removal of APCs
Planning Policy and Conservation	-195	-356	-358	-381	-381	-381	-381	-381	-381	-381	Mainly removal of one-off spending that had been funded by grants received in earlier years
Economic Development	-50	-50	-51	-51	-51	-51	-51	-51	-51	-51	Mainly net rent income on Units
Joint Leisure Centres	-9	-174	-211	-267	-283	-283	-283	-283	-283	-283	Mainly net additional income from developments
Parks and Open Spaces	-11	-29	4	-51	-51	-51	-51	-51	-51	-51	Mainly net additional income from Hinchingsbroke Park café development
Housing Benefits	23	68	114	160	160	160	160	160	160	160	Mainly reduction in Benefits admin grant
Car Parks	-71	-71	-68	-72	-72	-72	-72	-72	-72	-71	Mainly extra net car park income
Environmental Improvements	-2	-1	-51	-52	-52	-52	-52	-52	-52	-52	Drop out of Environment Strategy Funding after 3 years
Offices	-38	157	242	242	242	242	242	242	242	242	Additional running costs of new buildings - mainly NNDR
IT related	70	38	50	50	50	50	50	50	50	50	
Other	-49	11	-40	-98	-154	-87	-87	-88	-88	-87	
Spending adjustments identified	-494	-594	-708	-708	-708	-567	-708	-708	-708	-567	Spending adjustments already planned
Technical	275	336	387	388	388	388	388	388	388	388	Mainly schemes b/f, reduction in staff recharges to capital and phasing out of commutations
	<b>-618</b>	<b>-740</b>	<b>-774</b>	<b>-923</b>	<b>-994</b>	<b>-787</b>	<b>-928</b>	<b>-928</b>	<b>-928</b>	<b>-787</b>	
<b>Major items</b>											
Cost of borrowing	418	1,099	1,608	2,003	2,295	2,594	2,895	3,199	3,509	3,821	
Interest	902	1,216	1,392	1,557	1,671	1,714	1,708	1,702	1,694	1,685	Loss of interest due to use of revenue and capital reserves
Inflation (details on next page)	1,593	3,259	4,345	5,688	7,056	8,235	9,697	11,205	12,492	14,135	
<b>TOTAL INCREASE</b>	<b>2,295</b>	<b>4,834</b>	<b>6,571</b>	<b>8,326</b>	<b>10,028</b>	<b>11,756</b>	<b>13,372</b>	<b>15,178</b>	<b>16,766</b>	<b>18,855</b>	
<b>TO BE FUNDED FROM</b>											
RSG	-415	-782	-1,235	-1,704	-2,189	-2,691	-3,211	-3,749	-4,305	-4,882	
Council Tax	-375	-771	-1,189	-1,630	-2,096	-2,589	-3,109	-3,659	-4,239	-4,852	
Collection Fund Deficit	-28	-28	-28	-28	-28	-28	-28	-28	-28	-28	
Use of Revenue Reserves	-977	-2,252	-2,119	-1,322	264	1,622	1,622	1,622	1,622	1,622	
<b>Spending Adjustments still to be identified</b>	<b>-500</b>	<b>-1,000</b>	<b>-2,000</b>	<b>-3,642</b>	<b>-5,979</b>	<b>-8,070</b>	<b>-8,646</b>	<b>-9,365</b>	<b>-9,816</b>	<b>-10,715</b>	
<b>TOTAL FUNDING</b>	<b>-2,295</b>	<b>-4,833</b>	<b>-6,571</b>	<b>-8,326</b>	<b>-10,028</b>	<b>-11,756</b>	<b>-13,372</b>	<b>-15,178</b>	<b>-16,766</b>	<b>-18,855</b>	

INFLATION	Forecast Variations from 2008/09 Approved Budget									
	2009/ 2010	2010 2011	2011 2012	2012 2013	2013 2014	2014 2015	2015 2016	2016 2017	2017 2018	2018 2019
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Pay and Pensions	1,514	3,135	4,435	5,798	7,227	8,725	10,295	11,942	13,668	15,478
Electricity and Gas	41	85	130	178	228	281	336	394	455	519
Vehicle fuel and mileage allowances	39	79	122	165	211	259	309	361	415	471
All other expenditure items	320	648	984	1,329	1,682	2,045	2,416	2,796	3,186	3,586
Car Park Income			-118	-118	-118	-248	-248	-248	-391	-391
Planning Income			-115	-115	-115	-241	-241	-241	-380	-380
Rents	-46	-93	-142	-192	-244	-298	-353	-409	-468	-528
All other income	-289	-586	-890	-1,203	-1,524	-1,853	-2,190	-2,537	-2,893	-3,258
<b>sub total</b>	<b>1,579</b>	<b>3,268</b>	<b>4,405</b>	<b>5,842</b>	<b>7,348</b>	<b>8,669</b>	<b>10,323</b>	<b>12,057</b>	<b>13,592</b>	<b>15,497</b>
Add inflation on Revenue MTP schemes	14	24	40	46	42	68	81	94	108	123
Less inflation on spending adjustments		-33	-101	-201	-334	-503	-708	-946	-1,209	-1,485
<b>TOTAL</b>	<b>1,593</b>	<b>3,258</b>	<b>4,345</b>	<b>5,687</b>	<b>7,055</b>	<b>8,234</b>	<b>9,697</b>	<b>11,204</b>	<b>12,491</b>	<b>14,134</b>