APPENDIX A

FINANCIAL FORECAST
(Report by the Head of Financial Services)

1 PURPOSE

1.1 This report considers the Financial Forecast for the next 15 years and highlights the difficulties of assessing inflation and the other impacts of the current economic problems together with the potential for significant fluctuations in Government Grant every 3 years when the Government's Comprehensive Spending Reviews are announced.

1.2 This report will be considered by the Overview and Scrutiny Panel (Corporate and Strategic Framework) on 2 September and Cabinet will then have the opportunity to consider their comments on 4 September prior to making their own recommendations to Council (24 September).

2 BACKGROUND

2.1 The Council has continued to spend carefully and this, together with extra grants, buoyant income and some transfers from revenue to capital, resulted in last year's outturn being £1.2m less than assumed in the MTP, though £0.3m of this will be needed to fund projects unavoidably deferred. This has been added to Revenue Reserves giving a total of £20.7m at April 2008. Additional capital expenditure resulted from transferring some items originally budgeted for as revenue and a lower level of deferral to 2008/09 than had been forecast. This resulted in Capital reserves of £16.0m at April 2008.

2.2 Our approved financial forecast recognises that we will have a number of years with deficits funded from reserves before equilibrium can be achieved. It also recognises that finding additional income, specific grant funding or savings to achieve this total will be a challenge.

3. FUNDING

3.1 The Councils net revenue expenditure has to be funded from Government general grant, council tax and reserves. The table below shows the proposed changes in each of these elements and the following paragraphs explain the changes included in this new forecast:

FUNDING	08/09 £M	09/10 £M	10/11 £M	11/12 £M	12/13 £M	13/14 £M	14/15 £M	15/16 £M	16/17 £M	17/18 £M	18/19 £M
Proposed Changes											
Government Grant				**0.1**	**0.2**		**-0.1**	**-0.3**	**-0.4**	**-0.6**	**-0.8**
Council Tax			**-0.1**								
Reserves	**0.3**	**0.7**	**0.7**	**-0.2**	**-0.3**	**0.2**	**0.2**				
Reduction (-)	**0.3**	**0.7**	**0.6**	**-0.2**	**-0.2**	**0.2**	**0.1**	**-0.3**	**-0.4**	**-0.6**	**-0.8**

Note – some tables do not add up due to roundings

4 GOVERNMENT GENERAL GRANT

4.1 In December 2007 the Government, for the first time, announced three year's grant. They gave a definite figure for 2008/09 and a provisional indication for 2009/10 and 2010/11 as part of their Comprehensive Spending Review (CSR07).

4.2 Whilst this gives councils a much better basis on which to make their shorter term plans it has the potential to concentrate significant changes into each of the three-yearly reviews. There are two types of change:

- Change in the total amount the Government is prepared to distribute to local government.
- Changes to the formula by which this total sum is allocated to individual councils.

4.3 The Government's provisional settlement for 2009/10 and 2010/11 gave increases of 3.4% and 2.9% respectively and 3.5% per year was assumed thereafter. Given the current economic difficulties faced by the Government it is now likely that these assumptions are optimistic. The increases post 2010/11 have therefore been reduced to 2.5%. However, adjustments to the previous assumptions on the level of grant temporarily withheld, to protect those authorities who should receive decreases, means that losses only emerge post 2013/14 but then rise to £764k per year by 2018/19.

4.4 Any change in formula could be quite dramatic given the exemplifications produced when changes to the area cost adjustment factor were being considered in the last review. The Government has a working group that considers changes to the formula and by next year's review of the forecast it may be possible to identify whether we are more likely to lose or gain from potential changes. For this year's review the forecast has been based on no change to the formula.

GRANT FUNDING	08/09 £M	09/10 £M	10/11 £M	11/12 £M	12/13 £M	13/14 £M	14/15 £M	15/16 £M	16/17 £M	17/18 £M	18/19 £M
Current Approved Plan											
True grant forecast	13.0	13.2	13.4	13.8	14.3	14.8	15.3	15.9	16.4	17.0	17.6
Less withheld for tapering	-0.8	-0.6	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6
Total	**12.2**	**12.6**	**12.9**	**13.4**	**13.9**	**14.3**	**14.8**	**15.4**	**15.9**	**16.5**	**17.0**
Proposed Plan											
True grant forecast	13.0	13.2	13.4	13.7	14.0	14.4	14.7	15.1	15.5	15.9	16.3
Less withheld for tapering	-0.8	-0.6	-0.4	-0.2							
Total	**12.2**	**12.6**	**12.9**	**13.5**	**14.0**	**14.4**	**14.7**	**15.1**	**15.5**	**15.9**	**16.3**
LOSS (-)	**-0.0**	**-0.0**	**-0.0**	**+0.1**	**+0.2**	**0.0**	**-0.1**	**-0.3**	**-0.4**	**-0.6**	**-0.8**

5. COUNCIL TAX

Tax Base

5.1 The current forecast is based on the tax base rising by 0.6% per year due to new house building.

5.2 Current economic difficulties have had a major impact on the house building industry and there has also been a noticeable volume of success in requests for reducing Council Tax bands for a variety of reasons. Overall it is anticipated that there will be no growth in taxbase for 2009/10 and just 0.3% in 2010/11. It has been assumed that, due to the inherent demand for additional housing, numbers will then rise for a period before returning to more normal levels of growth.

TAX BASE	09/10 £	10/11 £	11/12 £	12/13 £	13/14 £
Current Approved Plan	**58,132**	**58,481**	**58,831**	**59,184**	**59,539**
% increase	0.6%	0.6%	0.6%	0.6%	0.6%
Forecast Tax base	**57,785**	**57,958**	**58,480**	**59,184**	**59,539**
% increase	0.0%	0.3%	0.9%	1.2%	0.6%
LOSS (-)	**-347**	**-523**	**-351**	**0**	**0**

Council Tax Level

5.3 The Council decided to change its policy last year on the level of increases in Council Tax and moved from "the lower of the Council Tax and Budget Requirement increase being under 5%" to simply keeping the Council Tax increase under 5%. The Council also has a target to keep the level below that of the average District Council.

5.4 On 27 March the Government designated 8 authorities for capping, giving them 21 days to explain why their increase was necessary. Subsequently, on 26 June the Local Government Minister, John Healey, made the decisions shown in the table below:

CAPPING	% increases: council tax	% increases: budget requirement	**Subsequent Government action**
Bedfordshire Police	9.6%	5.3%	No change 2008/09 but notional lower figure set on which the 2009/10 increase will be calculated.
Norfolk Police	8.3%	5.3%	
Portsmouth City	5.04%	6.1%	
Surrey Police	9.7%	6.0%	
Cheshire Police	17.0%	6.8%	No change 2008/09 but increases limited to 3% in 2009/10 and 2010/11
Leicestershire Police	15.4%	6.5%	
Warwickshire Police	12.9%	6.7%	
Lincolnshire Police	78.9%	29.0%	Capped and required to re-bill in 2008/09
Government criteria	*Over 5%*	*Over 5%*	***Both** increases must be over 5% for designation*

5.5 Some of the Police Authorities may have gained benefit from this approach, e.g. Cheshire will achieve Council Tax increases of 23% over the next three years, it is likely that there is an underlying problem with Police finance that required some benefit. The only Local Authority, Portsmouth, has gained nothing as its marginal increase in Council Tax above 5% will be clawed back next year. It would therefore appear that the Council's decision to increase the Tax level by 4.99% last year was sound.

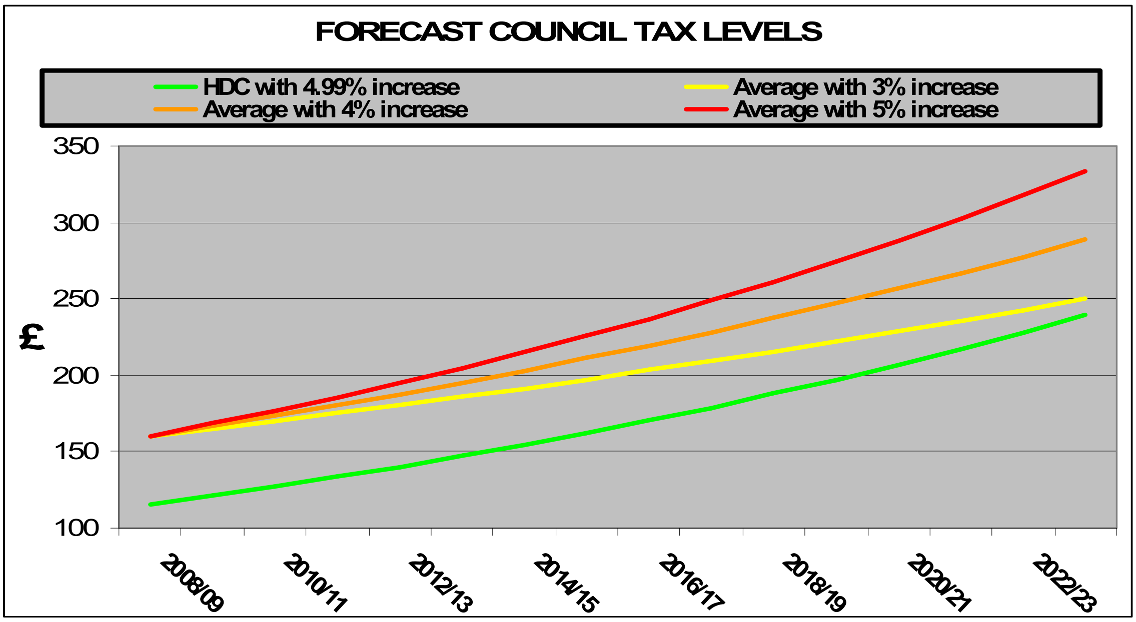
5.6 However, it is very difficult to forecast what impact the current high levels of inflation on fuel, electricity and gas will have on the approach to capping for 2009/10. The position is exacerbated by public sector unions refusing to accept the current pay award offers because they consider that it results in a real-terms pay cut.

5.7 One argument is that Councils will have no choice but to make more significant increases, as, to do otherwise, will require unacceptably large cuts in services. Thus many Councils will make higher tax increases and, based on past performance, the Government would simply pick the worst ones resulting in a higher capping level.

5.8 Alternatively the Government may try and use local authorities as a means of deflation by limiting increases to lower levels than in past years.

5.9 For the purpose of the forecast, increases in Council Tax have been assumed to follow the previously approved plan of 4.99% per year. This will be reviewed in the light of the latest information when the tax is formally set next February for 2009/10.

5.10 The graph below shows Huntingdonshire's planned increases compared with the average District level rising at 3%, 4% or 5%.



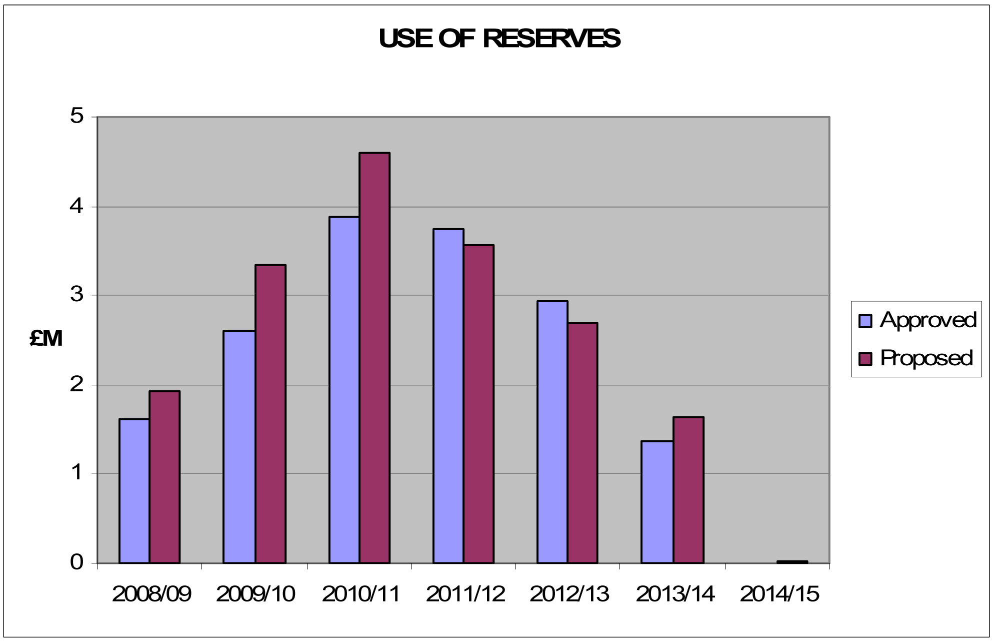
6 USE OF RESERVES

6.1 The balancing items in the process of producing the forecast are the use of reserves and the level of spending adjustments to be achieved. Available reserves are allocated over a number of years to give a profile of spending adjustments that is manageable (see also para. 8.1 below).

6.2 The current approved plan is based on allowing Revenue Reserves to fall to £3m, the recommended minimum level. The position is improved by the success in 2007/08 which led to them being increased and the forecast for the current year also shows less being required.

6.3 The previous Plan was based on net spending rising to £29M by 2018/19 and revenue reserves falling to £3M. The new plan has been extended to 2023/24, by when, net spending will rise to £33M. It is therefore considered appropriate to increase reserves to £4M as that date approaches.

6.4 The graph below compares the use of reserves in the approved plan with the proposed plan:



6.5 **Capital Reserves**

The forecast level of capital receipts has been revised downwards to reflect expected reductions in the Council's share of "right-to-buy" receipts, due to the current economic problems, and also because certain schemes now include related receipts within the relevant MTP appraisal. This results in less buoyant capital reserves and hence requires additional capital funding to be met from borrowing.

7 NET EXPENDITURE

7.1 At this stage of the annual budget process the Forecast does not attempt to include all of the detailed variations that will emerge later in the process. It does however attempt to identify the significant items within the following categories:

- Inflation: General inflation, pay inflation, pension contributions and assumed increases in fees and charges
- Interest Rates
- Unavoidable significant Service Changes
- Service Variations post April 2013
- Minimum Revenue Provision
- Items not taken into account.

7.2 **Inflation**

In the current year additional costs will arise due to the slightly higher than budgeted pay award (though this can be almost met from a small reduction in the employer's pension contribution rate) together with higher electricity and diesel costs. These are partly offset by a significant reduction in insurance rates achieved at the re-tendering from July (£90k this year and £120k in a full year). Whilst there is no clear evidence on what may happen on diesel costs, an assumption has been made and the net result is that £155k will be needed in the current year and £132k in subsequent years to correct the 2008/09 price base.

7.3 The inflation on diesel is based on a purchase price of £1.10 per litre (£1.29 including VAT) for the rest of the year. Recent reductions in prices mean that this figure might be able to be reduced when the draft budget is considered in November. A reduction of 5p would amount to a reduction of around £25k. Diesel is purchased in bulk to obtain discounts and stored in a larger tank than was available at the old Godmanchester Depot.

7.4 Employer's pension contributions have been based on the latest valuation by the actuary and show a small reduction on the levels previously included. It must be appreciated that the figures are closely linked, in part, to the performance of the equity market, which may have implications for the next valuation in 3 years time.

7.5 2009/10 will see the end of our current fixed price contracts for gas in November and electricity in December. General inflation may also be higher but this can be broadly off-set by higher increases in discretionary fees and charges. Diesel, gas and electricity costs are likely to continue to increase by more than average inflation in the long run. Again there is no reliable basis on which to make these future assumptions and so the forecasts shown in the table below will be reviewed regularly during the plan period:

From **To**	**08/09** **09/10**	**09/10** **10/11**	**010/11** **011/12**	
prices				
expenditure	3.0% from 2.5%	3.0% from 2.5%		
fees & charges	3.0% from 2.5%	3.0% from 2.5%		
electricity	12% from 5%	38% from 5%	Stay at 5%	ongoing
gas	20% from 5%	40% from 5%	10.0% from 5%	ongoing
fuel	10% from 5%	10% from 5%	10% from 5%	ongoing
pension rate	18.4% from 18.8%	20.4% from 21.1%	20.4% from 21.1%	ongoing

7.6 There is also a need to identify inflation on the required spending adjustments so that they can be shown at the same price base as the rest of the budget each year to ensure comparability e.g. the new plan is at 2009/10 prices. The calculation last year has been refined which, whilst not altering the bottom line results in more of the spending adjustment being treated as inflation, and thus gives a lower headline figure for spending adjustments.

7.7 Higher inflation also means that if the Council is to use increases in fees and charges to contribute to future spending adjustment targets the increases will have to be higher.

7.8 **Interest Rates**

It has been assumed that we will earn 4.95% on our investments in 2009/10, 5.25% in 2010/11, 5.5% in 2011/12, 5.0% in 2012/13 and 4.75% thereafter. The Interest rate for borrowing has been assumed at 4.75% through until 2012/13 and 4.5% thereafter. In reality borrowing rates are likely to be higher during the earlier years but fluctuate within each year throughout the whole period of the forecast. Long term borrowing will take place either in advance or arrears to ensure keen rates are achieved and short term borrowing or investment used to cater for the timing differences. These rates will be reviewed at each stage of the budget process.

7.9 **Service Variations to March 2013**

Previously planned changes in budgets (MTP schemes) have been reflected in the financial forecast together with the following list of significant revenue items that are currently known. There is also an increase of £1,439k in the cost of the projects for the new Operations Centre, Customer Service Centre and Offices, excluding any recharges from revenue salaries for which there are compensating savings:

VARIATIONS	08/09 £000	09/10 £000	10/11 £000	11/12 £000	12/13 £000	13/14 £000
Land Charges	200	100	100	100	100	100
Car Park Strategy – delayed implementation and change to charging basis.	80	-113	-113	-113	-113	-113
Planning fees – major fall in house building	150	150				
A14 Inquiry		250				
Need to accrue untaken leave in accounts			150			
Benefits adjustment	-80	-80	-80	-80	-80	-80
VAT Partial Exemption	-105					
Revenue to Capital Transfers	-104					
Total	**141**	**307**	**57**	**-93**	**-93**	**-93**

7.10 Whilst these items will result in a short term cost of £505k this is followed by a permanent reduction in costs of £93k per year.

7.11 **Service Variations post April 2013**

It is necessary to consider what general provision for service variations should be made beyond the level to March 2013 already included in the approved MTP.

7.12 It has been assumed that, given the financial position the Council will be facing in the coming years, any additional **revenue** developments should be funded from compensating savings or additional specific grant or contributions.

7.13 £4.65m per year for capital investment (at 2009/10 prices) has been included and this would be sufficient, **for example,** to fund:

	£000
Social Housing Grant	1,100
Leisure Centre Maintenance (500) and regular replacement of fitness equipment (200)	700
Disabled Facilities Grants	900
Vehicle Replacements	800
Other items	1,154
Total	**4,654**

7.14 Any unavoidable additional costs will need to be met from revenue reserves until compensating savings or additional income can be obtained.

7.15 **Minimum Revenue Provision (MRP)**

The MRP is a charge to revenue to enable borrowing to fund capital expenditure to be repaid in a prudent fashion. New regulations require the Council to have a policy on the calculation of the MRP and this will be included in the November MTP report. The forecast has always made provision for such a payment once borrowing is required based on an average life of assets of 25 years. The Sensitivity Analysis exemplifies the impact if the new rules result in this average changing.

7.16 **Items not taken into account**

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.
- ♦ The Council is likely to be faced with some significant costs relating to an "orphan" contaminated land site. This could amount to as much as £150k per year together with some sums due for past years.
- ♦ At the time of writing this report there was still insufficient data from bus operators to forecast the level of any under or over spending on concessionary fares in the current year. There is the potential for additional costs and reduced income from next spring when the Guided Bus becomes operational. This would be due to additional trips by passengers with concessionary fares passes and the impact on car park income at St Ives if the Guided Bus car park is free. There is a possibility that Concessionary Fares may become a County Service from April 2011 but it is impossible to predict whether the grant adjustments will be greater or less than our expenditure at that time.
- ♦ Potential service developments not already in the MTP and any unavoidable spending requirements not referred to in this report.

The net impact of the items in this paragraph is likely to be an additional cost and this is considered in Annex B.

8 SPENDING ADJUSTMENTS AND OVERALL POSITION

8.1 Any variations in funding, identified in sections 4 and 5 above, or net expenditure, section 7, need to be balanced by a combination of spending adjustments and the use of revenue reserves. There is still sufficient flexibility provided by revenue reserves to achieve this in an organised manner.

8.2 As referred to in para 7.6 above there is a need to adjust the split of spending adjustments between the inflation element and the headline target to achieve comparability with the price base for the rest of the plan. The table below therefore shows the relevant figures to restate the approved figures and then highlight the differences in the proposed plan:

UNIDENTIFIED SPENDING ADJUSTMENTS	09/10 £000	10/11 £000	11/12 £000	12/13 £000	13/14 £000	14/15 £000	15/16 £000	16/17 £000	17/18 £000	18/19 £000
Approved Plan	**-500**	**-1,000**	**-2,000**	**-3,642**	**-5,979**	**-8,070**	**-8,646**	**-9,365**	**-9,816**	**-10,715**
Transfer to inflation provision	0	24	94	296	702	1,192	1,445	1,750	2,006	2,426
Proposed variations	0	-25	-594	-654	-323	-405	-681	-791	-852	-967
Proposed Plan	**-500**	**-1,000**	**-2,500**	**-4,000**	**-5,600**	**-7,283**	**-7,882**	**-8,406**	**-8,663**	**-9,256**
Increase (-)	**0**	**0**	**-500**	**-358**	**379**	**787**	**764**	**959**	**1,153**	**1,459**

8.3 There has been marked success in identifying spending adjustments with a significant part of the 2009/10 target identified last year leaving just £500k now to be found. However the increasing levels for future years mean that robust challenge will be required of any proposals for additional spending that emerge in this year's MTP.

8.4 Later reports in the budget cycle will identify the remainder of the adjustments for next year and any progress relating to later years.

8.5 Annex A summarises the overall forecast and covers the period up to 2023/24.

9 SENSITIVITY AND RISKS

9.1 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 a sensitivity analysis is undertaken to identify the potential impact if any of the key assumptions change. This is attached at Annex B.

10 CONCLUSIONS

10.1 The benefits to forward planning, from three year grant figures, are illusory as the uncertainty every third year, on future grant levels, is significant.

10.2 The Council's plan to increase Council Tax levels by 4.99% per year is still sound in the light of the Government's approach to capping for 2008/09.

10.3 There will be unavoidable additional spending due to inflation, the downturn in the housing industry and other adjustments included in this report. There may well be other unavoidable areas of spending which will emerge during the budget/MTP process. This results in reserves having to be used more quickly and some increases in the level of spending adjustments required.

10.4 Although the Council continues to be successful in identifying revenue savings and additional grant funding there will need to be a robust challenge of all MTP bids. Also, any attempts to contribute from increases in fees and charges, will necessitate greater rises to compensate for higher levels of inflation.

10.5 Long range planning is far from precise, especially given the frequent changes within local government. However it does provide a clear indication of what will happen based on the current set of assumptions. It thus allows strategic decisions to be made which will be regularly reviewed when changes to the underlying assumptions emerge.

10.6 Cabinet will have the comments from the Overview & Scrutiny Committee available when they consider this report.

11 RECOMMENDATIONS

11.1 **Cabinet is requested to:**

Recommend this report to Council and highlight the increased uncertainty created by the current and future levels of inflation and the Government's reaction to them through capping and future grant settlements.

ACCESS TO INFORMATION ACT 1985

1. Working papers in Financial Services
2. Financial Forecast (September 2007), 2007/08 Outturn, 2008/09 Revenue Budget and the 2009/2013 MTP

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FINANCIAL SUMMARY	FORECAST	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	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
2008/09 BUDGET/MTP	**20,420**	**22,214**	**24,252**	**24,990**	**25,103**	**24,469**	**24,105**	**25,146**	**26,233**	**27,369**	**28,559**	**28,418**	**28,408**	**28,351**	**28,559**	**28,418**
Net deferrals	185	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Items identified in forecast report	141	307	57	-93	-93	-93	-93	-93	-93	-93	-93	-93	-93	-93	-93	-93
Inflation adjustments																
- 2008/09 adjustments	155	132	132	132	132	132	132	132	132	132	132	132	132	132	132	132
- future revisions		-48	165	94	83	75	9	9	15	-43	-24	2,000	3,743	5,986	8,347	10,409
- adjusting savings pricebase	0	0	-26	-155	-393	-765	-1,292	-1,649	-2,030	-2,356	-2,883	-3,737	-4,499	-5,461	-6,617	-7,523
Variation in Cost of Borrowing		162	333	361	393	415	434	453	472	489	506	838	1,174	1,512	1,854	2,198
Interest Variation	42	163	-13	4	74	101	118	128	130	134	139	134	120	106	92	78
Forecast Outturn	-223															
Changes to spending adjustments	0	0	0	-500	-358	379	787	764	959	1,153	1,459	958	766	369	-171	-260
NEW FORECAST	**20,720**	**22,930**	**24,899**	**24,833**	**24,942**	**24,713**	**24,199**	**24,890**	**25,817**	**26,785**	**27,795**	**28,650**	**29,751**	**30,902**	**32,103**	**33,359**
FUNDING																
Use of revenue reserves	-1,923	-3,331	-4,588	-3,532	-2,610	-1,564	-198	0	0	0	0	200	200	200	200	200
Remaining revenue reserves EOY	*18,823*	*15,492*	*10,904*	*7,372*	*4,762*	*3,198*	*3,000*	*3,000*	*3,000*	*3,000*	*3,000*	*3,200*	*3,400*	*3,600*	*3,800*	*4,000*
Government Support	-12,157	-12,572	-12,939	-13,491	-14,034	-14,384	-14,744	-15,113	-15,491	-15,878	-16,275	-16,682	-17,099	-17,526	-17,964	-18,414
Collection Fund Deficit	28	-27	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Council Tax	-6,668	-7,001	-7,372	-7,810	-8,298	-8,765	-9,257	-9,777	-10,327	-10,907	-11,520	-12,168	-12,853	-13,576	-14,339	-15,146
COUNCIL TAX LEVEL	**£115.39**	**£121.15**	**£127.20**	**£133.55**	**£140.21**	**£147.21**	**£154.55**	**£162.26**	**£170.36**	**£178.86**	**£187.79**	**£197.17**	**£207.02**	**£217.36**	**£228.22**	**£239.62**
% increase	**4.99%**	**4.99%**	**4.99%**	**4.99%**	**4.99%**	**4.99%**	**4.99%**	**4.99%**	**4.99%**	**4.99%**	**4.99%**	**4.99%**	**4.99%**	**4.99%**	**4.99%**	**4.99%**

Forecast Capital Spending	16,084	15,034	7,497	7,264	5,009	5,133	5,263	5,396	5,532	5,670	5,812	5,957	6,106	6,258	6,415	6,575
Capital reserves EOY	539	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Accumulated Borrowing EOY	0	13,395	19,992	26,556	30,864	35,297	39,861	44,557	49,388	54,359	59,470	64,727	70,133	75,691	81,406	87,281
Net Interest and Borrowing Costs	-2,120	-517	474	1,204	1,867	2,320	2,698	3,022	3,342	3,664	3,989	4,316	4,638	4,962	5,290	5,621
Spending Adjustments required	**0**	**-500**	**-1,000**	**-2,500**	**-4,000**	**-5,600**	**-7,283**	**-7,882**	**-8,406**	**-8,663**	**-9,256**	**-9,757**	**-9,949**	**-10,346**	**-10,886**	**-10,975**

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Annex B

FINANCIAL PLAN -SENSITIVITY AND RISKS

The financial forecast model has been used to demonstrate the impact that variations in investment rates, borrowing rates and increases in pay will have in specific years.

Cumulative from 2009/10 unless otherwise indicated	**Extra cost in:**	
	2013/14 £M	2023/24 £M
0.5% extra pay award	**+0.7**	**+3.3**
0.5% increase in staff efficiency assuming this can be translated into reduced staffing levels.	**-0.7**	**-3.3**
0.5% higher investment returns	**0.0**	**0.0**
0.5% higher borrowing costs	**+0.1**	**+0.3**
0.5% increase in Government Grant per year **from 2011/12**	**-0.2**	**-1.4**
Impact on MRP of 5 year increase in average life of assets	**-0.2**	**-0.4**
Impact on MRP of 5 year decrease in average life of assets	**+0.3**	**+0.5**
Extra growth of £0.5m per year	**+2.5**	**+7.5**

Inflation, other than pay, is fairly neutral as long as fees and charges are increased in line with it. If pay awards increase by more than forecast then further efficiency improvements would be needed to reduce the impact.

The impact of investment rates has significantly diminished by 2013/14 as reserves will have been significantly reduced to meet revenue deficits and to fund capital projects.

The impact of higher borrowing rates is less significant than pay but is growing.

Other Risks

The results of the next triennial revaluation of the Pension Fund will be received in December 2010. The performance of the Funds investments over the next three years will have a significant impact on the result. An increase of 1% per year for 4 years would have an impact of £0.5M in 2013/14 and £1.1M in 2023/24.

The position on Concessionary Fares is still not clear in the short term and it may become a County function from April 2011 though whether this will be financially beneficial cannot be assessed.

The Government's next Comprehensive Spending Review will be published in the summer of 2010 (and every three years thereafter) and will create significant uncertainty and potential volatility. It could have a significant impact as changes to the area cost adjustment are likely to be reconsidered.

It has been assumed that capping will continue to allow 4.99% increases in Council Tax. If this limit were to be reduced significant additional spending adjustments would be required. Relaxation of capping would provide potential to reduce the level of spending adjustments required by increasing Council Tax levels, if this were supported by Council.

Inflation on Capital Schemes of 2.5% per year has been included in total within the plan. There have been 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 Customer Service Centre and Pathfinder House figures are predominantly fixed prices.

There is no provision for any demographic growth in services. Pressures will emerge due to additional housing and increased longevity over the plan period.

Most budgets are based on 97.5% of salary due to the expectation of savings from staff turnover. If turnover falls financial pressures will emerge and vice versa.

Leisure Centre income is close to £5M per year (excluding cost sharing from the County Council and Schools) and certain facilities are in direct competition with the private sector. If income was lost it would be difficult to reduce expenditure by an equivalent sum in the short term. In addition the financial plan incorporates a substantial challenge for leisure centres to reduce their net cost by nearly £1M per year. This may not be achieved.

Spending Adjustments of £5.5M by 2013/14 and £11M by 2023/24 are included in the financial plan and achievement of these will require detailed identification and delivery plans.