

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

**1 PURPOSE**

- 1.1** This report considers the Council's financial position for the next 14 years. It highlights any significant changes from the plan approved in February and outlines a number of areas where there remains major uncertainty.
- 1.2** These uncertainties include the impact and length of the recession, Government funding in the next Comprehensive Spending Review (April 2011 to March 2014), changes to the grant allocation formula and the next pension fund revaluation. The forecast is therefore less certain than normal and the report highlights the potential for information emerging within the next 18 months which might make the position worse.
- 1.3** This report will be considered by the Overview and Scrutiny Panel (Economic Well-Being) on 10 September and Cabinet will then be able to consider their comments on 17 September prior to making their own recommendations to Council (23 September).

**2 BACKGROUND**

- 2.1** For a number of years, financial forecasts have highlighted the extra costs the Council faces from inflation, government grant being withheld, pressures for more and better services and low grant increases. The impact is increased because Government capping prevents the current low level of Council Tax from being significantly increased towards the average level. Therefore plans have been based on using revenue reserves over a number of years to provide time for efficiency savings to be maximised, extra grants to be sought, charges to be raised and, if all else fails, for any service reductions to be focussed on the services seen to be of lower priority (generically referred to as spending adjustments).
- 2.2** The table below shows the approved Budget/MTP which is the starting point of this year's review:

<b>APPROVED BUDGET / MTP</b>	<b>09/10 £M</b>	<b>10/11 £M</b>	<b>11/12 £M</b>	<b>12/13 £M</b>	<b>13/14 £M</b>	<b>14/15 £M</b>	<b>15/16 £M</b>	<b>16/17 £M</b>	<b>17/18 £M</b>	<b>18/19 £M</b>
Net Spending	23.4	25.8	27.2	28.5	29.6	30.8	32.4	33.7	35.0	36.5
Less unidentified reductions		-0.5	-1.5	-3.2	-6.5	-6.8	-7.5	-7.9	-8.2	-8.7
Net Funding required	<b>23.4</b>	<b>25.3</b>	<b>25.7</b>	<b>25.3</b>	<b>23.1</b>	<b>24.0</b>	<b>24.9</b>	<b>25.8</b>	<b>26.8</b>	<b>27.8</b>
<b>Funding</b>										
Government support	-12.6	-12.9	-13.5	-14.0	-14.4	-14.7	-15.1	-15.5	-15.9	-16.3
Council Tax	-7.0	-7.4	-7.8	-8.3	-8.8	-9.3	-9.8	-10.3	-10.9	-11.5
<b>Deficit met from Reserves</b>	<b>-3.8</b>	<b>-5.0</b>	<b>-4.4</b>	<b>-3.0</b>						

- 2.3** The Council managed to keep its spending £400k below budget last year but still needed to fund a deficit of £1.2M from reserves. Conversely net capital expenditure was £1.4M higher than budgeted due to some contributions from other bodies being delayed resulting in the Council having to fund the spending in the meantime. The result is that Revenue reserves stood at £19.6M in April and Capital Reserves were effectively all used.
- 2.4** The Council continues to face a number of years with significant deficits funded from reserves before balanced budgets can be achieved. Reaching this equilibrium will be challenging.

### **3. THE NEW FORECAST - SUMMARY**

#### **Section 4 - Government Grant**

Government General Grant is expected to be as previously indicated for 2010/11 but the new Comprehensive Spending Review will be affected by the expected shortage of Government funds giving lower levels from 2011/12 onwards when a cash increase of just 1% is assumed for 3 years.

#### **Section 5 - Council Tax and Capping**

The Government are expected to continue to cap what they regard as excessive increases in Council Tax and their view on excessive will be conditioned by the state of the economy. Capping is assumed at 2.5%.

#### **Section 6 – Revenue Reserves**

Revenue Reserves are finite and need to be spread to give a phased target for achieving the necessary reductions in net spending. They have been rephased to reflect the net expenditure reductions (see below) and so will there will still be some available in 2014/15.

#### **Section 7 – Summary of Total Funding**

Total funding reduces by £1.7m per year by 2014/15, the end of the new MTP period.

#### **Section 8 – Net Expenditure**

Optimising the calculation of the Minimum Revenue Provision (MRP) together with changes in the assumptions for inflation, particularly pay and utilities, result in future net spending levels falling.

#### **Section 9 - Spending Adjustments and Overall Position**

Spending adjustments for the next three years only altering marginally but a reduced increase in 2013/14 makes it more achievable.

#### **Section 10 – Sensitivity and Risks**

There are a greater number and scale of unknowns than in previous plans and the number concentrated in the next year raise the importance of achieving targeted spending adjustments.

## **4 GOVERNMENT GENERAL GRANT**

- 4.1** In December 2007 the Government, for the first time, announced three year grant settlements and it was pleasing to see that they kept to their plan in the second year (2009/10). It is expected that they will continue to do so in 2010/11.
- 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** It is expected that the amount to be distributed will be a real terms cut for District Councils because of the economic situation and the perceived priorities of Education and Social Services. The forecast assumes just a 1% cash increase per year over the next review period (2011/12 to 2013/14) and that this will then increase to a 2½% cash increase per year.
- 4.4** There are likely to be two particular changes to the formula. One of these relates to the Area Cost Adjustment which attempts to compensate those authorities nearer London for higher costs. Previous exemplifications which were not subsequently actioned showed the Council losing by various amounts.
- 4.5** The second aspect relates to Concessionary fares which may be transferred to County Councils or central government in April 2011. Council's and the LGA argue that the scheme is underfunded nationally and it remains to be seen whether a transfer would result in some or all Districts losing more grant than they are currently spending on the scheme.
- 4.6** The formula changes are too complex and uncertain to model so no assumed change has been made but the risk is most certainly on the downside.
- 4.7** The Government has a system of protections still in place for those authorities which they have calculated should be receiving less grant. Unfortunately this is funded by those authorities that are due to receive increases in grant like Huntingdonshire and so this Council has now lost over £6M, including interest. The table below shows the change in assumptions on the level of grant:

GRANT* FUNDING	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M
<b>Current Approved Plan</b>										
True grant forecast	13.2	13.4	13.7	14.0	14.4	14.7	15.1	15.5	15.9	16.3
Less withheld to protect others	-0.6	-0.4	-0.2							
<b>Total</b>	<b>12.6</b>	<b>12.9</b>	<b>13.5</b>	<b>14.0</b>	<b>14.4</b>	<b>14.7</b>	<b>15.1</b>	<b>15.5</b>	<b>15.9</b>	<b>16.3</b>
<b>Proposed Plan</b>										
True grant forecast	13.2	13.4	13.5	13.6	13.8	14.1	14.5	14.8	15.2	15.6
Less withheld to protect others	-0.6	-0.4	-0.2							
<b>Total</b>	<b>12.6</b>	<b>13.0</b>	<b>13.3</b>	<b>13.6</b>	<b>13.8</b>	<b>14.1</b>	<b>14.5</b>	<b>14.8</b>	<b>15.2</b>	<b>15.6</b>
<b>LOSS (-)</b>		<b>+0.1</b>	<b>-0.2</b>	<b>-0.4</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-0.6</b>	<b>-0.7</b>	<b>-0.7</b>	<b>-0.7</b>

\*Grant includes Revenue Support Grant and NNDR which are *in aggregate* distributed in line with the grant formula.

## 5. COUNCIL TAX

### Tax Base

5.1 The current forecast is based on the tax base rising as follows:

TAX BASE	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
	£	£	£	£	£	£	£	£	£	£
<b>Band D Properties</b>										
Number	57,960	58,134	58,483	59,009	59,540	59,897	60,257	60,618	60,982	61,348
% increase		0.3%	0.6%	0.9%	0.9%	0.6%	0.6%	0.6%	0.6%	0.6%

5.2 Current data suggests a 0.3% increase will be achieved for next year and so it is proposed to retain these assumptions which are based on significant house building as soon as the economic outlook becomes more positive with 2012/13 and 2013/14 reflecting “catch-up” on the significant sites that already have planning permission.

### Council Tax Level

5.3 The Council’s policy is to keep the Council Tax increase under 5% and the total level below that of the average District Council.

5.4 On 26 March the Government designated 2 authorities for capping, giving them 21 days to explain why their increase was necessary. Subsequently, on 13 May the Local Government Minister, John Healey, made the decisions shown in the table below:

CAPPING	% increases:		Subsequent Government action
	council tax	budget requirement	
Surrey Police	7.07%	4.82%	Capped
Derbyshire Police	8.68%	4.99%	Not capped BUT the calculation of their increase next year will be as if they had been, thus allowing them only a very low increase or even a reduction next year
<i>Government criteria</i>	<i>Over 5%</i>	<i>Over 4%</i>	<i>Both increases must be over the limits for designation</i>
Huntingdonshire	4.99%	4.37%	

- 5.5 Two things are worthy of note. Firstly, the capping decision was made some 6 weeks earlier than the previous year thus demonstrating it could be made before a June election date. Secondly the criteria have again been tightened as shown below:

	Increase in budget requirement of	AND	Increase in Council Tax of
2005/06	6%		5.5%
2006/07	6%		5%
2007/08	No Authorities capped		
2008/09	5%		5%
2009/10	4%		5%

- 5.6 It is very difficult to forecast what impact a 2010 general election and the recession, particularly the key Council inflation element of pay, will have on capping levels. There is significant likelihood that the level will fall and, potentially, significantly. The forecast has therefore been based on only raising Council Tax levels by 2.49% per year. This will be reviewed in the light of the latest information when the tax is formally set next February for 2009/10.

- 5.7 The impact on the Council's income is shown below:

COUNCIL TAX	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
<b>Current Approved Plan</b>										
Council Tax level	£121.15	£127.20	£133.55	£140.21	£147.21	£154.55	£162.26	£170.36	£178.86	£187.79
Council Tax Income	£7.0M	£7.4M	£7.8M	£8.3M	£8.8M	£9.3M	£9.8M	£10.3M	£10.9M	£11.5M
<b>Proposed Plan</b>										
Council Tax level	£121.15	£124.17	£127.26	£130.43	£133.68	£137.01	£140.42	£143.92	£147.50	£151.17
Council Tax Income	£7.0M	£7.2M	£7.4M	£7.7M	£8.0M	£8.2M	£8.5M	£8.7M	£9.0M	£9.3M
<b>Reduction in income</b>		<b>-£0.2M</b>	<b>-£0.4M</b>	<b>-£0.6M</b>	<b>-£0.8M</b>	<b>-£1.1M</b>	<b>-£1.3M</b>	<b>-£1.6M</b>	<b>-£1.9M</b>	<b>-£2.2M</b>

- 5.8 In 2009/10, despite its 4.99% increase, the Council's £121 tax level was still the 19<sup>th</sup> lowest with the average being £165 and the highest £307.

## 6. USE OF REVENUE RESERVES

- 6.1 Revenue Reserves in April 2009 were £19.6M and it is considered that £3M is the minimum that needs to be retained for an authority of this size to cover unexpected impacts until the following year's Council Tax can be set or other action taken to resolve the problem. Last year's plan also made allowance for the £3m to gradually increase to £4M as net spending rose above £25M.

- 6.2 Thus £16.6M is available to cover the current and forecast funding deficits on a temporary basis and thus give the Council time to phase in the necessary spending adjustments over the next few

years. Taking account of the following paragraphs that discuss the level of inherent spending and thus the adjustments required to achieve a balanced budget results in the proposed changes shown in the table below.

RESERVES	09/10	10/11	11/12	12/13	13/14	14/15
	£ M	£ M	£ M	£ M	£ M	£ M
Current Approved Plan	3.8	5.0	4.4	3.0		
Proposed Plan	3.0	4.3	3.7	2.5	1.9	1.2
Change	-0.8	-0.7	-0.7	-0.5	+1.9	+1.2

## 7. OVERALL FUNDING POSTION

7.1 The chart below combines the results from the previous sections on funding to show the change in total funding available:

OVERALL FUNDING	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
	£ M	£ M	£ M	£ M	£ M	£ M	£ M	£ M	£ M	£ M
<b>Current Approved Plan</b>										
Government Grant	12.6	12.9	13.5	14.0	14.4	14.7	15.1	15.5	15.9	16.3
Council Tax Income	7.0	7.4	7.8	8.3	8.8	9.3	9.8	10.3	10.9	11.5
Revenue Reserves	3.8	5.0	4.4	3.0						
<b>Total</b>	<b>23.4</b>	<b>25.3</b>	<b>25.7</b>	<b>25.3</b>	<b>23.1</b>	<b>24.0</b>	<b>24.9</b>	<b>25.8</b>	<b>26.8</b>	<b>27.8</b>
<b>Proposed Plan</b>										
Government Grant	12.6	13.0	13.3	13.6	13.8	14.1	14.5	14.8	15.2	15.6
Council Tax Income	7.0	7.2	7.4	7.7	8.0	8.2	8.5	8.7	9.0	9.3
Revenue Reserves	3.0	4.3	3.7	2.5	1.9	1.2				
<b>Total</b>	<b>22.6</b>	<b>24.4</b>	<b>24.5</b>	<b>23.9</b>	<b>23.6</b>	<b>23.5</b>	<b>22.9</b>	<b>23.5</b>	<b>24.2</b>	<b>24.8</b>
<b>Reduction in income</b>	<b>-0.8</b>	<b>-0.9</b>	<b>-1.2</b>	<b>-1.4</b>	<b>+0.5</b>	<b>-0.5</b>	<b>-2.0</b>	<b>-2.3</b>	<b>-2.6</b>	<b>-3.0</b>

## 8. NET EXPENDITURE

8.1 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:

- 2008/09 outturn
- Inflation: General inflation, pay inflation, pension contributions and assumed increases in fees and charges
- Interest Rates – Investment and Borrowing
- Unavoidable significant Service Changes

### 8.2 2008/09 Outturn

This Forecast takes account of the final position for 2008/09 as reported to Cabinet in July.

### 8.3 Inflation

In the current year there is a saving from the annual pay award being agreed at 2.2% (budget allowance 3%). The provision for very large increases in electricity and gas prices will not now be required for that purpose but will be needed for unexpected increases in diesel costs, insurance and external audit fees.

8.4 The biggest item will always be pay inflation and this forecast is based on 1% for April 2010, 2% for 2011 and 2.5% thereafter. This should not be taken as an assumption that the actual award will be at or even around these levels but simply a current estimation that general pay rises may be at these sorts of level. This change has a significant impact on spending levels.

8.5 Inflation on some other areas has also been adjusted and the table below highlights the differences over the next three years:

	From To	09/10 10/11	010/11 011/12	11/12 12/13
pay		1% from 3%	2% from 3%	2.5% from 3%
prices				
expenditure		2% from 3%	2% from 2.5%	2% from 2.5%
fees & charges		2% from 3%	2% from 2.5%	2% from 2.5%
electricity		5% from 38%	5% no change	5% no change
gas		5% from 40%	10.0% no change	10.0% no change
fuel		5% from 10%	7.5% from 10%	10% no change
pension rate		20.4% no change	20.4% no change	20.4% no change

8.6 Employer's pension contributions are based on the valuation made by the independent actuary. The next valuation is due in late 2010 and will give us the new rates for 2011/12 onwards. It will be significantly affected by the market value of equities when the valuation is carried out. It is thus impossible to estimate what the figure might be but it is very likely to result in further increases.

### 8.7 Interest Rates

The Council has been largely protected from the fall in interest rates through having a number of investments locked into higher rates. As these come to an end over the coming year our returns will fall but will initially be offset, in part, by low borrowing rates. It has been assumed for the purpose of the forecast that borrowing will be for a mix of periods and current long period borrowing rates are significantly higher than short ones as the market is assuming generally higher rates within the next two years. In practice, there will be some opportunity to achieve lower investment rates by borrowing short until long term rates dip.

The table below shows the assumed interest rates used in the forecast:

Average Rates	2009/10	2010/11	2011/12	2012/13
Investment	3.8%	2.0%	4.5%	4.5%
Borrowing	0.7%	1.7%	4.2%	4.6%

## 8.8 Service Variations

Previously approved changes in budgets (MTP schemes) have been reflected in the financial forecast together with the following list of revenue items:

SPENDING VARIATIONS	09/10	10/11	11/12	12/13	13/14
	£000	£000	£000	£000	£000
Concessionary fares	255	255	255	255	255
Change in accounting rules for recharging to capital	240	240	240	240	240
St Ives Guided Bus	20	75	75	75	75
Additional insurance costs	33	44	44	44	44
Central Services staff savings	-80	-55	-55	-55	-55
CCTV reorganisation	-32	-72	-72	-72	-72
Pay award (2009/10)	-170	-170	-170	-170	-170
Other Inflation adjustments	-45	-45	-45	-45	-45
Lower Income due to the recession	250	165	85		
Higher costs due to the recession	115	76	38		
Recycling gate fees	131				
Car parking general expenditure	-30				
Lower refuse freighter maintenance	-60				
Recharge of salaries to capital	-97				
VAT reclaim with interest	-780				
Other variations	12				
<b>Total</b>	<b>-238</b>	<b>513</b>	<b>395</b>	<b>272</b>	<b>272</b>

**8.9** No provision has been made for any further revenue service enhancements or additional costs (other than inflation) but capital sums have been included from 2014/15 onwards at the rate of £5.3M per year (cash prices).

## 8.10 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. This is the first year that such a payment is required and the Council is required to have a policy on its calculation which is attached at Annex C. The Council's financial plans have always made provision for such a payment commencing based on equal annual instalments with an average life of assets of 25 years. However, in reviewing the DCLG guidance in detail and modelling the options it became clear that the initial payment can be delayed until the year after the borrowing is used for financing capital and that the annuity basis is the most equitable. The net impact is that borrowing costs can be significantly reduced as shown below:

<b>BORROWING COSTS</b>	09/10	10/11	11/12	12/13	13/14	14/15
	£M	£M	£M	£M	£M	£M
Current Approved Plan	0.6	1.4	1.8	2.2	2.6	3.0
Proposed Plan	0.0	0.6	1.3	1.7	2.1	2.6
Variation*	-0.6	-0.8	-0.5	-0.4	-0.4	-0.4

\* Part of the variation is due to any revisions in interest rates and the phasing of capital expenditure.

## 9. SPENDING ADJUSTMENTS AND OVERALL POSITION

9.1 All the variations in funding and spending covered by this report will result in a net change to the level of spending adjustments required to produce a balanced budget each year after using the Council's remaining revenue reserves. The net effect is shown below:

<b>CHANGES IN NET SPENDING AND SPENDING ADJUSTMENTS</b>	09/10	10/11	11/12	12/13	13/14	14/15
	£M	£M	£M	£M	£M	£M
<b>Net Spending Variations</b>						
Service spending (Para 8.8)	-0.2	+0.5	+0.4	+0.3	+0.3	+0.3
Inflation provision (Para 8.5)		-0.8	-1.0	-1.2	-1.1	-1.4
Borrowing costs (Para 8.10)	-0.6	-0.8	-0.5	-0.4	-0.4	-0.4
Interest variations (Para 8.7)	+0.1	+0.3	-0.2	-0.3	-0.3	-0.2
<b>Total</b>	<b>-0.8</b>	<b>-0.9</b>	<b>-1.2</b>	<b>-1.6</b>	<b>-1.5</b>	<b>-1.7</b>
<b>Less Change in Funding (Para 7.1)</b>	<b>-0.8</b>	<b>-0.9</b>	<b>-1.2</b>	<b>-1.4</b>	<b>+0.5</b>	<b>-0.5</b>
<b>Change in Spending Adjustments Required</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.2</b>	<b>-2.0</b>	<b>-1.2</b>

<b>Spending Adjustments</b>	09/10	10/11	11/12	12/13	13/14	14/15
Included in approved plan	0.0	0.5	1.5	3.2	6.5	6.8
Proposed in Forecast	0.0	0.5	1.5	3.0	4.5	5.6

9.2 There has been marked success in identifying spending adjustments over a number of years and detailed discussions have been taking place between Cabinet Members, Chief Officers and Heads of Service on the suggestions made by the Overview and Scrutiny Working Group and a range of other possibilities. A number of these are now being developed in more detail and it is envisaged that a list of proposals will be ready for approval when the draft budget is presented in November. Any variations to the phasing shown above will be made at that time.

9.3 Annex A summarises the overall forecast for the period up to 2024/25.

## 10 SENSITIVITY AND RISKS

10.1 The Financial Forecast, by its very nature, takes a longer-term view and, within that time frame, many of its assumptions will turn out to be imprecise but it is a critical exercise for the Council as it allows the annual review of the required spending adjustments to ensure they are identified and available when required.

10.2 There are certain matters that it has not been possible to include at this stage and it is important for members to be aware of these issues and whether the net likelihood is expected to be good, bad or unknown (???). Examples include:

- Interest rates or inflation may turn out to be significantly different to the assumptions in this report. (???)
- The possibility of further one-off VAT refunds and receiving compound rather than simple interest on these and the refunds already agreed. (good)
- The potential for costs relating to “orphan” contaminated land sites. (bad)
- Increases in employer’s pension contributions from April 2011.(bad)
- Change in Revenue Support Grant Formula from April 2011. (probably bad)
- Financial impact of concessionary fares responsibility transferring to the County Council or centre government in April 2011. (potentially bad )
- The recession becoming more severe and prolonged. (bad)
- Difficulty delivering the savings already identified or the spending targets inherent in this plan. (bad)
- High priority service developments not already in the MTP and any unavoidable spending requirements not referred to in this report emerging. (bad)

10.3 A sensitivity analysis has therefore been undertaken to identify the potential impact if any of the key assumptions change. This is attached at Annex B.

## 11 CONCLUSIONS

11.1 There are a greater number and scale of unknowns than in previous plans and a number are concentrated on next year as shown below:

<b>Risks and Unknowns</b>	<b>Timescale</b>
Impact of St Ives Guided Bus	By Spring '10
Government capping decision	May each year
Length and depth of recession – impact on interest rates, pay inflation, house building, Council income and expenditure.	ongoing
Government grant totals for 2011/12 to 2013/14 (may be delayed by election)	November '10
Grant formula changes (may be delayed by election)	November '10
Changes regarding responsibility for Concessionary Fares	November '10
Pension Scheme revaluation	December '10

11.2 There will also be unavoidable areas of spending emerging during the budget/MTP process which will result in reserves having to be used more quickly and thus increase the level of spending adjustments required.

11.3 The next 18 months are therefore critical for the Council's future spending plans.

11.4 If the Government only allow Council Tax rises of 2.49% per year, the Council will never be able to get its tax level up to the average to help to protect services. Actual Council Tax levels are considered each January in the light of the latest information.

11.5 **In the meantime**, Spending Adjustment targets can be maintained at the current planned levels for the next 2 years.

11.6 Officers have been working with Cabinet Members to identify a range of measures to deliver the spending adjustments already identified as necessary. Clearly, in the circumstances, it would be best to identify a programme to cover a number of years to provide additional flexibility and this is being considered.

## 12 RECOMMENDATIONS

### 12.1 Cabinet is requested to:

**Approve** the annuity basis for the calculation of Minimum Revenue Provision as outlined in Annex C.

**Recommend** this report to Council and highlight the particular level of uncertainty leading up to April 2011.

### ACCESS TO INFORMATION ACT 1985

Source Documents:

1. Working papers in Financial Services
2. Financial Forecast (September 2008), 2008/09 Outturn, 2009/10 Revenue Budget and the 2010/2014 MTP

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## ANNEX A

FINANCIAL SUMMARY	FORECAST	BUDGET	MTP				FORECAST									
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>2009/10 BUDGET/MTP</b>	<b>23,378</b>	<b>25,286</b>	<b>25,687</b>	<b>25,306</b>	<b>23,149</b>	<b>24,001</b>	<b>24,890</b>	<b>25,817</b>	<b>26,785</b>	<b>27,796</b>	<b>28,650</b>	<b>29,752</b>	<b>30,901</b>	<b>32,103</b>	<b>33,358</b>	<b>34,869</b>
<b>Variations:</b>																
Spending	-238	513	395	272	272	272	272	272	272	272	272	272	272	272	272	272
Interest	57	266	-157	-290	-316	-241	-202	-203	-204	-205	-206	-206	-205	-205	-205	-205
Cost of Borrowing	-572	-819	-484	-445	-442	-378	-366	-351	-330	-301	-266	-223	-172	-114	-46	31
Inflation	0	-803	-964	-1,218	-1,084	-1,355	-1,891	-2,246	-2,517	-2,980	-3,343	-3,751	-4,238	-4,647	-5,058	-5,736
Spending Adjustments (+ = reduction)	0	0	0	238	2,001	1,194	217	256	180	263	214	173	174	57	-99	-32
<b>NEW FORECAST</b>	<b>22,625</b>	<b>24,443</b>	<b>24,477</b>	<b>23,863</b>	<b>23,580</b>	<b>23,493</b>	<b>22,920</b>	<b>23,545</b>	<b>24,186</b>	<b>24,845</b>	<b>25,321</b>	<b>26,017</b>	<b>26,732</b>	<b>27,467</b>	<b>28,223</b>	<b>29,198</b>
<b>FUNDING</b>																
Use of revenue reserves	-3,004	-4,267	-3,744	-2,540	-1,858	-1,180	0	0	0	0	200	200	200	200	200	0
<i>Remaining revenue reserves EOY</i>	16,589	12,322	8,578	6,038	4,180	3,000	3,000	3,000	3,000	3,200	3,400	3,600	3,800	4,000	4,000	4,000
Government Support	-12,572	-12,958	-13,291	-13,626	-13,762	-14,106	-14,459	-14,820	-15,191	-15,571	-15,960	-16,359	-16,768	-17,187	-17,617	-18,057
Collection Fund Deficit	-27	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Council Tax income	-7,022	-7,218	-7,443	-7,697	-7,959	-8,207	-8,461	-8,724	-8,995	-9,274	-9,562	-9,859	-10,165	-10,480	-10,805	-11,141
<b>COUNCIL TAX LEVEL</b>	<b>£121.15</b>	<b>£124.17</b>	<b>£127.26</b>	<b>£130.43</b>	<b>£133.68</b>	<b>£137.01</b>	<b>£140.42</b>	<b>£143.92</b>	<b>£147.50</b>	<b>£151.17</b>	<b>£154.93</b>	<b>£158.79</b>	<b>£162.74</b>	<b>£166.79</b>	<b>£170.94</b>	<b>£175.20</b>
£ increase		<b>£3.02</b>	<b>£3.09</b>	<b>£3.17</b>	<b>£3.25</b>	<b>£3.33</b>	<b>£3.41</b>	<b>£3.50</b>	<b>£3.58</b>	<b>£3.67</b>	<b>£3.76</b>	<b>£3.86</b>	<b>£3.95</b>	<b>£4.05</b>	<b>£4.15</b>	<b>£4.26</b>

Forecast Capital Spending	15,921	4,678	4,717	6,851	6,776	5,023	5,156	5,292	5,431	5,572	5,717	5,866	6,018	6,175	6,335	6,500
Accumulated net** Borrowing EOY	15,936	19,929	23,860	29,818	35,544	39,356	43,164	46,962	50,741	54,493	58,209	61,882	65,500	69,054	72,532	75,924
Net Interest and Borrowing Costs																
- total	-1,050	120	452	902	1,437	1,986	2,364	2,707	3,060	3,422	3,793	4,166	4,550	4,944	5,350	5,770
- as % of total net spending	-5%	0%	2%	4%	6%	8%	10%	11%	13%	14%	15%	16%	17%	18%	19%	20%
Unidentified Spending Adjustments still required	0	-500	-1,500	-3,000	-4,500	-5,621	-7,270	-7,679	-8,031	-8,466	-9,226	-9,406	-9,862	-10,421	-10,841	-11,021

\*\* Borrowing is net of repayment reserve generated by MRP contributions only

## FINANCIAL PLAN - SENSITIVITY AND RISKS

The financial forecast model has been used to demonstrate the impact that the following variations would result in. The values indicate the annual amount that would need to be added or deducted from the spending adjustments target.

Cumulative from 2010/11 unless otherwise indicated	Extra cost in:	
	2014/15 £M	2023/24 £M
0.5% extra pay award (every year)	0.7	2.8
0.5% extra increase in staff efficiency assuming this can be translated into reduced staffing levels.	-0.7	-2.8
0.5% higher interest rates	+0.0	+0.2
0.5% extra increase in level of Council Tax increase	-0.2	-0.8
1.0% extra reduction in Government Grant per year from 2011/12	+0.5	+2.1
Impact if the mix of new assets leads to a 5 year fall in their average life.	+0.3	+0.8
5% loss in Leisure Centre fees and charges	+0.3	+0.3
Increase in Pension Fund contributions of 1% in 2011/12, 2% in 2012/13 and 3% in 2013/14 onwards.	+0.5	+0.8

Inflation, other than pay, is fairly neutral as long as fees and charges are increased in line with it.

The impact of interest rates is significantly diminished by 2014/15 as the Council will no longer be a net investor as reserves will have been significantly reduced to meet revenue deficits and borrowing will be increasing each year.

### Other Risks

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.

Changes in the Government's allocation formula will take place from April 2011. Last time that the Area Cost Adjustment formula was considered all the options reduced the Council's grant.

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 the recession continues or becomes more severe there may be some loss of income.

Spending Adjustments of £5.6M by 2014/15 and £10.8M by 2024/25 are included in the financial plan and achievement of these will require detailed identification and delivery plans.

**ANNUAL MINIMUM REVENUE PROVISION POLICY FOR 2009/10**

When a Council finances capital expenditure from borrowing, the resulting costs are charged to the Council Taxpayers over the whole life of the asset so that those who benefit from the asset share the cost. There are two elements to the cost – the interest on the borrowing is charged in the year it is payable, whilst the money to repay the sum borrowed is charged as a “minimum revenue provision” (MRP) to the revenue account each year, starting with the year after the borrowing takes place. Once money is in the MRP it can only be used for repaying borrowing.

Until recently, the calculation of the MRP was determined by regulation but this was replaced by the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2008* which came into force on 31<sup>st</sup> March 2008. It simply says that ***A local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent.***

However, the Department for Communities and Local Government (DCLG) has issued guidance on what constitutes prudent provision and this requires the Council to determine an approach and publish this each year.

The first year in which the Council used borrowing to finance Capital Expenditure was 2008/09 so the first requirement for an MRP is this year.

There are three options for the calculation of the MRP :

**Equal annual instalments**

This is the easiest and simplest approach but the combination of the equal instalments of principal and the reducing interest makes the cost high to start with but then reducing year by year.

**Depreciation basis**

The Depreciation basis is the most complex. It starts by mirroring the equal annual instalments method but also requires adjustments every time the life of an asset is varied.

**Annuity basis**

By setting the rate for the annuity equal to the expected long term borrowing rate the cost is the same for each year like a conventional mortgage. It is only marginally more work than the equal instalments approach.

**The Annuity basis is, by far, the most equitable approach and it is therefore proposed that it be the Council's MRP policy for 2009/10.**