

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

## 1 PURPOSE

- 1.1 This report is the start of the process leading to the formal approval of the 2013/14 budget and Medium Term Plan (MTP) next February. It provides Members with updates on :
- the financial plans approved in February,
  - progress on identifying and delivering savings
  - areas where there are new or continuing uncertainties.
- 1.2 The report also seeks approval for the basis on which the Minimum Revenue Provision (MRP) will be calculated (see Annex B).

## 2 SUMMARY

- 2.1 The forecast only takes account of some specific changes, mainly flowing from last year's outturn. Other items will be refined or decisions made over the coming months while a range of items should become much clearer at the end of the calendar year e.g. government funding, New Homes Bonus for 2013/14.
- 2.2 The table below compares the use of reserves and unidentified savings required in the approved MTP with what might now be possible. It is though, very important that the results are treated with caution for the reasons above.

IMPACT OF CHANGES	BUDGET	MTP			
	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
<b>CURRENT MTP</b>					
Use of revenue reserves	-2,547	-1,954	-1,909	-1,122	0
<i>Remaining revenue reserves EOY</i>	<b>9,485</b>	<b>7,531</b>	<b>5,622</b>	<b>4,500</b>	<b>4,500</b>
<b>Unidentified Spending Reductions</b>	<b>0</b>	<b>-337</b>	<b>-550</b>	<b>-616</b>	<b>-891</b>
<b>DRAFT FORECAST</b>					
Use of revenue reserves	-3,032	-1,954	-1,909	-1,122	0
<i>Remaining revenue reserves EOY</i>	<b>10,431</b>	<b>8,477</b>	<b>6,568</b>	<b>5,446</b>	<b>5,446</b>
<b>Unidentified Spending Reductions</b>	<b>0</b>	<b>-166</b>	<b>-285</b>	<b>-398</b>	<b>-595</b>

- 2.3 What these figures do clearly establish is that, for the areas adjusted, the net benefit is a clear improvement in the Council's financial position but that work must still continue on identifying additional savings.

### 3. STARTING POINT

3.1 The budget/MTP report approved in February contained the following key points which form the starting point for this year's process.

BUDGET/MTP	FORECAST	BUDGET	MTP			
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	£000	£000	£000	£000	£000	£000
<b>FORECAST SPENDING</b>	<b>21,435</b>	<b>21,722</b>	<b>22,299</b>	<b>22,842</b>	<b>23,611</b>	<b>24,365</b>
<b>FUNDING</b>						
Use of revenue reserves	-2,409	-2,547	-1,954	-1,909	-1,122	0
<b>Remaining revenue reserves EOY</b>	<b>12,032</b>	<b>9,485</b>	<b>7,531</b>	<b>5,622</b>	<b>4,500</b>	<b>4,500</b>
New Homes Bonus	-832	-1,913	-2,857	-3,704	-4,845	-6,095
Special Council Tax Grant 2011/12	-184	-184	-184	-184	0	0
Formula Grant (RSG)	-10,522	-9,288	-9,235	-8,630	-8,846	-9,067
Collection Fund Adjustment	-105	-63	0	0	0	0
Council Tax	-7,383	-7,727	-8,068	-8,415	-8,797	-9,202
<b>COUNCIL TAX LEVEL</b>	<b>£124.17</b>	<b>£128.51</b>	<b>£133.01</b>	<b>£137.66</b>	<b>£142.48</b>	<b>£147.47</b>
£ increase	<b>£0.00</b>	<b>£4.34</b>	<b>£4.50</b>	<b>£4.66</b>	<b>£4.82</b>	<b>£4.99</b>
<b>Unidentified Spending Reductions</b>	<b>0</b>	<b>0</b>	<b>-337</b>	<b>-550</b>	<b>-616</b>	<b>-891</b>
<b>EXTRA savings if higher risks</b>		<b>-100</b>	<b>-800</b>	<b>-1,000</b>	<b>-1,600</b>	<b>-2,100</b>

3.2 Thus, based on the lower risk assumptions, **£0.9M** of additional savings were forecast to be required by 2016/17 or as much as **£3M** if the higher risk assumptions turn out to be valid.

### 4. UPDATE

4.1 There are some specific areas where the position can be updated but much uncertainty remains in a number of areas and these are dealt with later in this report.

#### 4.2 2011/12 Outturn

The forecast outturn used for the MTP was £21.4M requiring £2.4M to be used from general reserves which would leave £12M available to create a permanent provision of £4.5M with the remainder being used as a temporary buffer to allow savings to be identified and implemented over the next 4 years (lower risk assumptions).

The actual outturn was £20.1M and £1.0 M was used from reserves leaving £13.5M available but this also has to fund a slightly higher level of delayed projects.

The additional reserves provide additional flexibility as we enter a period of significant uncertainty. However, Overview and Scrutiny (Economic Well-Being) believe there may be arguments for higher levels of reserves and have set up a working group to discuss this. If a higher minimum level were to be agreed, any necessary savings would need to be implemented more speedily.

Capital expenditure was £5.4M net, slightly above the £5.3M assumed in the MTP and this has an impact on the MRP, the sum that the Council has to fund from revenue to provide for repayment of borrowing. The impact is actually a reduction of £82k in the current year due to a higher level of capital receipts, which is used first to fund the shorter life assets.

#### **4.3 Progress on planned savings**

Brief comments on individual savings are provided by category:

##### **POSSIBILITY OF OVER ACHIEVEMENT**

###### **Back Office Reorganisation**

Expected to exceed target but amount is dependent on the solution adopted for managing Estates.

###### **Pay Review**

The MTP is based on a 3.5% increase per year to cover cost of living and any increments. There is no assumption of any savings from the current pay review. It is anticipated that there will be some but it is too early to make any assumptions on the value or timing.

##### **UNCERTAIN**

###### **Document Centre**

Further savings from 2014/15 onwards not yet certain.

###### **Building Efficiency Improvements (Salix Grant)**

Uncertain until schemes identified for future years

###### **Rental of office space in PFH.**

Likelihood of achieving part of the extra £44k required but some uncertainty on timing and attainment of the whole sum.

###### **Environmental and Community Health**

Savings target of £75 from 2013/14. Detail of full sum not yet determined.

###### **Doubtful Debts Provision**

Proposed gradual reduction in future years. Will depend on experience.

###### **New Industrial Units**

The forecast increase in income (£28k) in 2013/14 is uncertain.

###### **One Leisure**

**Ramsey LC Development** is dependent on the detail and formal approval of a business case. **Leisure Overperformance** relies on maintaining income levels and it is too soon in the year to make a reliable forecast on this.

##### **DELAYED**

###### **Refuse Round reorganisation**

Deferred to February giving an extra cost in 2012/13 of £65k.

### **Huntingdon Multi-storey Car Park**

There has been slippage, so initial savings in capital costs but then delay before enhanced car park income comes on stream.

### **St Ivo Leisure Centre**

The scheme has been delayed which will defer the net benefit that the project is forecast to provide.

## **UNLIKELY TO MEET TARGET**

### **Car Parking**

This year's increase unlikely to be achieved until at least January 2013 at an extra cost of over £110k. This will have a knock-on impact to the timing of further required increases for which there is some provision in the risk contingency. The MTP is based on a 10% increase per year up to and including 2015/16 (over £150k per year) and the strategy for achieving this is not finalised.

### **Countryside**

Extra £50k from 2013/14 unlikely to be achieved.

### **Allowances**

Potential shortfall of £42k per year.

### **Licensing**

Additional fees from 2013/14 unlikely to be achieved due to savings in running costs and fees statutorily limited to break-even.

#### **4.4 Council Tax increase limits**

The MTP is based on Council Tax rises of 3.5% per year. There is no certainty that the Secretary of State will maintain the Referendum Limit at this level.

It will maximise the Council's ability to preserve services if the tax increase is set at the referendum limit each year.

#### **4.5 Inflation and Interest Rates**

The inflation calculation has been adjusted for the actual split of items included in the 2012/13 detailed budget. This creates reductions due to a lower proportion of staff related costs. Interest rates have also been reviewed.

#### **4.6 2012/13 Forecast**

The Forecast is currently £22,206k against a budget of £21,722k. Variations include the impact of the delay in the Government approving increases in planning fees (assumed April but will now be much later in the year), delays in finalising the rescheduling of refuse/recycling rounds and delays in introducing the 2012/13 increases in parking fees.

There are also clear signs of increasing volumes of people with housing and financial difficulties which will need further extra spending to ensure they receive an adequate service.

## 4. RISKS

- 4.1 Annex A gives a full list of the risks identified in February together with the items where provision was included in the budget. This section provides any later information that has subsequently emerged.

### **New Homes Bonus**

The most significant assumption within the MTP is the continued major growth in New Homes Bonus as shown below:

<b>NEW HOMES BONUS</b>	<b>FORECAST</b>	<b>BUDGET</b>	<b>MTP</b>			
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	£000	£000	£000	£000	£000	£000
New Homes Bonus	-832	-1,913	-2,857	-3,704	-4,845	-6,095

The increase for 2013/14 is based on a net increase in properties of 747 Band D equivalent properties of which 216 are “affordable”. After 8 months the increase was around 500 so if the trend continues the forecast bonus should be achieved. We are reliant on the DCLG for the data on “affordable” increases so it is not possible to forecast the position on that element at this stage but last year 416 were achieved.

The risk contingency for non-achievement (£0.1M) may not be needed for 2013/14 but there will continue to be uncertainty as to the size in the offsetting reduction in formula grant until December. The risk contingency allows £0.2M for this.

The increase in new homes will also increase service pressures e.g. refuse and recycling and collection of council tax. A risk contingency is included for this.

### **Localisation of Business Rates**

Further information has been published by the Government that makes it clear that the Council would only get a small share of any increase in NNDR collected. This could be mitigated by entering into a pooling arrangement with the County Council and other Districts but there is insufficient data, at present, to reliably calculate the impact. Pooling would not be beneficial if there were reductions in Business Rates and it is very difficult to forecast future levels of growth given the existence of the Enterprise Zone (which is excluded from the calculation) and the impact of eurozone volatility.

There are significant concerns that the base from which the new system will commence will be lower than assumed in the MTP, even after taking account of the risk provision.

There is no reliable data on which to forecast future variations in business rates and hence the Council’s funding from this source.

### **Localisation of Council Tax Benefits and Changes in Council Tax allowances**

The information so far released makes it clear that the Council (and precepting bodies) will have to fund the impact of the Government reduction in funding.

This is due to four factors:

- Reduced benefits means that residents with limited means will have to pay a larger share of their Council Tax. This will be challenging for many of them and so it would be foolhardy to assume that these increases will all be collectable.
- The cost of extra staffing to maximise the collection of the extra sums.
- Potential loss of the element of Government subsidy provided to administer the current national scheme though this may be covered by “new burdens” funding,
- Loss of the reward grant for identifying overpayments.

In order to offset the impact of the Benefit changes for this Council and precepting bodies it is proposed that the Council takes advantage of the Government’s localisation of the decisions on certain allowances against Council Tax. The main item is the 6 month Council Tax relief for empty properties and the proposal will be to significantly reduce this period.

Assuming that the Council can agree a scheme that broadly balances the impact on Council Tax levels there will still be a net cost for this Council in relation to the extra costs of collection and the loss of reward grant that might amount to £150k per year.

The Council must consult on the changes and will need to formally approve its scheme in December.

### **Municipal Mutual Insurance (MMI)**

In the early 1990’s MMI (a local authority owned mutual company) ran into financial difficulties and technically became insolvent in 1992. Local authorities moved their insurance to other providers and a scheme of arrangement was entered into whereby any subsequent claims, relating to the insurance periods up until they ceased trading, that exceeded the reserves held would have to be met pro rata by the authorities (as creditors of MMI).

There has been a recent Supreme Court decision relating to mesothelioma which determined that the insurance liability relates to the period where the claimant came into contact with the asbestos rather than when they were initially diagnosed. This will increase the level of liability for MMI and hence the proportion of claims that relevant Local Authorities will not be able to recover.

Historically the potential liability has been covered by a “contingent liability” note in the accounts but, due to the Court decision, an initial sum of £200k was provided in the draft 2011/12 accounts.

There will be a potential need to provide further sums but the amounts and timing are not yet clear.

## **5. ADDITIONAL SAVINGS**

- 5.1 Cabinet Members are discussing additional savings areas with officers to ensure that the Council will have a sound plan to achieve a balanced budget whilst maintaining an acceptable minimum level of reserves.
- 5.2 An update on these will be included in the draft budget/MTP in December, with those being required for 2013/14 being formally agreed in the final report in February.

## 6. CONCLUSION

- 6.1 Savings in 2011/12 have provided extra flexibility which is welcomed, particularly due to the major areas of uncertainty that currently exist. Adjustments have also been made to inflation and interest rates.
- 6.2 The base funding from the Government, the detail of the Localisation of the Business Rates, the detail of the Localisation of Council Tax Benefits, changes to Council Tax allowances and the New Homes Bonus for 2013/14 will emerge later in the year before the budget is finalised. Officers are also working on reviewing all of the MTP bids and their existing budgets so that there will be increased clarity in the draft Budget/MTP report in December.
- 6.3 Given the remaining significant uncertainties and the continued requirement for further savings, as shown in paragraph 2.2, it is important for the Cabinet and officers to maintain their search for further cost reductions.

## 7. RECOMMENDATION

### **Cabinet is requested to:**

- **Approve** the annuity basis for the calculation of Minimum Revenue Provision as outlined in Annex B.
- **Note** the significant level of outstanding risks and that a number of significant items should be resolved or partially resolved before the budget is formally approved in February.
- **Make any appropriate comments and recommendations** to the Council on this year's budget process.

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

Source Documents:

1. Working papers in Financial Services
2. 2011/12 Outturn Report to Cabinet, 2012/13 Revenue Budget and MTP.

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## **ANNEXS**

- A Risks and Risk Provision (extract from 2012/13 Budget and MTP Report)**  
**B Basis for calculating MRP**

**ANNEX A**

**RISKS**

The most fundamental issue continues to be the economic impact of the various international financial issues. There continues to be major uncertainty on the scale of the problems ahead for the UK and the eurozone. If there are financial impacts on the UK this may result in problems for the Council due to:

- Lower income from planning fees, building control fees and leisure charges.
- Lower New Homes Bonus
- More applicants for housing and council tax benefit
- Higher homelessness
- Reductions in Government Grant

Other issues include:

- Delivery of the items contained in identified savings
- Identification and delivery of unidentified savings in future years.
- Levels of pay awards, inflation and interest rates
- Ability to maintain income levels
- Grant changes for 2013/14 onwards
- Impact of growth in Business Rates
- Impact of slower home building on New Homes Bonus
- Loss of Formula Grant (or Localised Business Rates) to fund New Homes Bonus
- Costs of demographic growth
- Change in Pension Fund contributions
- Impact of changes to the benefits systems on homelessness levels and the ability to collect Council Tax.
- High priority service developments not already in the MTP and any unavoidable spending requirements not referred to in this report emerging (e.g. planning appeals)
- The potential for costs relating to “orphan” contaminated land sites
- Repayment of past land charge fees
- Low demand for office property in Huntingdon e.g. assumed sale of Castle Hill House.



## RISK RANGES

The Low end assumption is included in the Budget/MTP.

LOW END ASSUMPTION Risk Provision in MTP	Extra savings needed (+) ##:					HIGH END ASSUMPTION	Extra savings needed (+) ##:				
	12/13	13/14	14/15	15/16	16/17		12/13	13/14	14/15	15/16	16/17
	£M	£M	£M	£M	£M		£M	£M	£M	£M	£M
<b>Extra reduction in Government Grant in 2013/14</b>											
2%		0.2	0.2	0.2	0.2	2%		0.2	0.2	0.2	0.2
<b>Extra reduction in Government Grant in 2015/6 and 2016/17</b>											
						0.9% per year accumulated				0.1	0.2
<b>Growth per year in funding from Business Rates growth</b>											
1% per year			-0.1	-0.2	-0.3	2% per year			-0.2	-0.3	-0.5
<b>Reduction in New Homes Bonus grant due to slower housing completions from 2013/14</b>											
10% lower		0.1	0.2	0.3	0.4	20% lower		0.2	0.4	0.6	0.8
<b>Reduction in Government Grant due to insufficient New Homes Bonus funding</b>											
All bodies share loss		0.2	0.3	0.4	0.5	Local Authorities share loss		0.3	0.5	0.6	0.8
<b>Increase in net spending every year to cover cost of increased population. There is no provision for demographic growth in the forecast.</b>											
0.425%		0.1	0.2	0.3	0.4	0.85%		0.2	0.4	0.6	0.8
<b>Potential reduction in tax base from non-collectable Council Tax following localisation reductions</b>											
Based on 8.4% of £900k		0.1	0.1	0.1	0.1	Based on 8.4% of £900k		0.1	0.1	0.1	0.1
<b>Increase in pay award:</b>											
						1% per year		0.2	0.4	0.7	0.9
<b>Loss of income in 2012/13 and 2013/14 excluding leisure</b>											
						2.5%	0.2	0.2			
<b>No leisure price increase</b>											
						in 2013/14		0.2	0.2	0.2	0.2
	0.0	0.7	0.9	1.1	1.3		0.2	1.6	2.0	2.8	3.5
<b>Savings Items</b>											
						<b>Savings Items</b>					
						CCTV – further savings	-0.1	-0.1	-0.1	-0.1	-0.1
Countryside savings			-0.1	-0.1	-0.1	Countryside savings			-0.1	-0.1	-0.1
Lower increase in car park charges		0.1	0.2	0.3	0.3	Lower increase in car park charges		0.1	0.2	0.3	0.3
	0.0	0.1	0.1	0.2	0.2		-0.1	0.0	0.0	0.1	0.1
<b>PROPOSED RANGE FROM . .</b>	<b>0.0</b>	<b>0.8</b>	<b>1.0</b>	<b>1.3</b>	<b>1.5</b>	<b>TO....</b>	<b>0.1</b>	<b>1.6</b>	<b>2.0</b>	<b>2.9</b>	<b>3.6</b>
						<b>Extra cost of high end assumption</b>	<b>0.1</b>	<b>0.8</b>	<b>1.0</b>	<b>1.6</b>	<b>2.1</b>

NOT INCLUDED IN EITHER ASSUMPTION	Extra savings needed (+) ##:				
	12/13	13/14	14/15	15/16	16/17
	£M	£M	£M	£M	£M
1% increase in non-pay inflation if fees and charges adjusted appropriately each year&&	0	0	0	0.1	0.1
2% change in Pension Fund contributions from 2013/14		0.3	0.3	0.3	0.3
1% increase in all interest rates from 2012/13 onwards		0.1	0.1	0.1	0.1
Increase Council Tax rise to 5% from 2013/14 onwards		-0.1	-0.2	-0.4	-0.5

*&& Excludes income items where above inflation increases already assumed*

## **ANNUAL MINIMUM REVENUE PROVISION POLICY 2011/12**

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.

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.

There are three options for the calculation of the MRP:

### **Equal annual installments**

This is the easiest and simplest approach but the combination of the equal installments 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 installments 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 installments approach. This was the basis agreed in previous years.

**The Annuity basis is, by far, the most equitable approach and it is therefore proposed that it continues to be the Council’s MRP policy.**