

HUNTINGDONSHIRE DISTRICT COUNCIL

Title	FINANCIAL FORECAST TO 2019
Meeting	Cabinet - 19 September 2013
Executive Portfolio	Resources
Author	Assistant Director , Finance and Resources
Wards Affected	All

SUMMARY

INCREASED UNCERTAINTY MAJOR EXTRA SAVINGS REQUIRED

The Government's Spending Review has implications for allowable increases in Council Tax, reductions in formula grant (RSG) and the proposal to pass a significant portion of New Homes Bonus to the Local Enterprise Partnership (LEP). (Section 5)

The Budget/MTP approved by Council in February has now been updated to reflect the latest information available to the Council to give the new Forecast (Section 7). This includes the 2012/13 outturn, 2013/14 latest forecast, a review of inflation and interest assumptions, changes to the risk assumptions (Sections 2,3,4 and 6) and the impact of the Government's Spending Review.

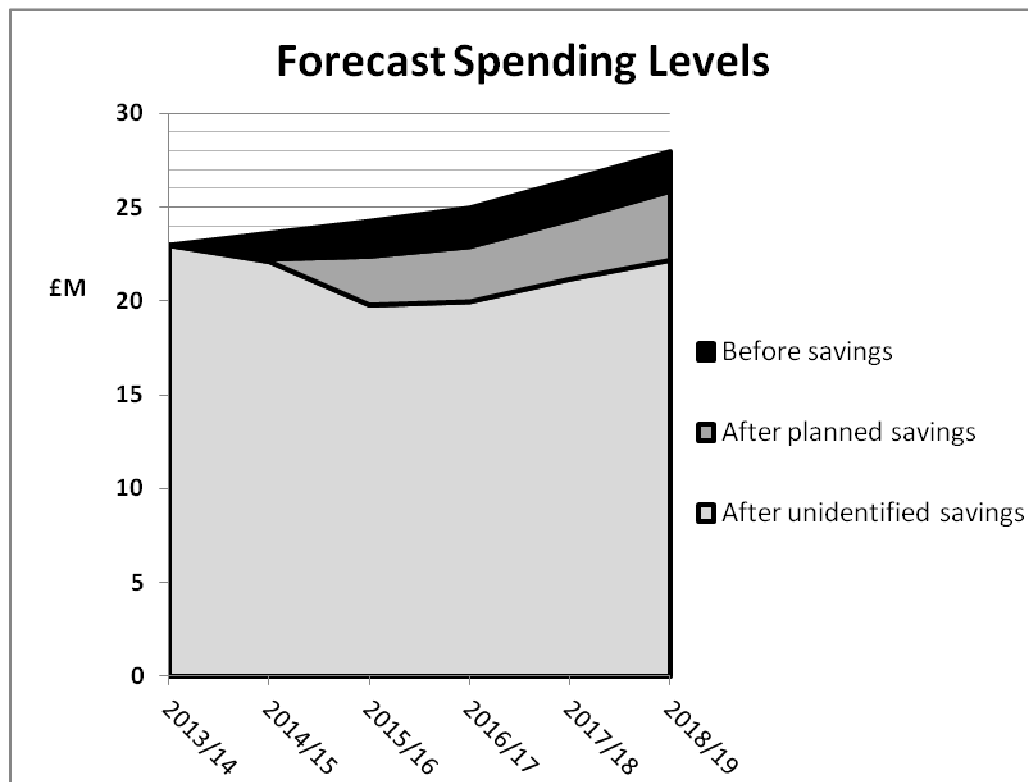
The report considers progress on the achievement of the previous target for unidentified savings (Section 8), and highlights the need to urgently identify how the necessary additional savings will be achieved. (Section 9)

The table below summarises the resulting position:

FORECAST	FORECAST	BUDGET	MTP			
	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
NET SPENDING	22,962	22,090	19,768	19,950	21,159	22,166
FUNDING						
Use of revenue reserves	-2,752	-2,386	-1,435			
Remaining EOY	8,821	6,435	5,000	5,000	5,000	5,000
New Homes Grant	-2,905	-3,505	-3,142	-4,175	-4,782	-5,182
Formula Grant (RSG)	-6,019	-4,500	-2,995	-2,995	-2,995	-2,995
Retained Business Rates	-3,704	-3,817	-3,913	-4,011	-4,111	-4,214
Collection Fund Deficit	-76					
Council Tax	-7,506	-7,882	-8,323	-8,810	-9,311	-9,816
COUNCIL TAX LEVEL	£133.18	£137.85	£142.67	£147.67	£152.84	£158.19
% increase	3.63%	3.51%	3.50%	3.50%	3.50%	3.5%
£ increase	£4.67	£4.67	£4.82	£4.99	£5.17	£5.35

Savings Required:

• Targetted		1,377	1,852	2,050	2,090	2,090
• Unidentified		138	2,620	2,948	3,181	3,694



Whilst progress is being made on achieving the previously identified savings requirement, the Government's Spending Review creates additional major financial challenges for the Council and its ability to deliver its current portfolio of services.

Whilst uncertainty about the final figures remains there is no alternative to assuming, for the time being, that **extra savings** of around £2.6M need to be found for 2015/16 increasing to £3.7M by 2018/19. There is uncertainty about what will happen to Government support for Councils after the 2015 General Election and this forecast assumes a fall of 2.5% per year.

The major challenge is to identify how these savings can be achieved in time. The report "Facing the Future 2013" later on the agenda begins this process.

RECOMMENDATIONS

That Cabinet recommend to the Council that it:

- confirms that there will be no grants relating to the impact of Council Tax Support to Town and Parish Councils in 2014/15 and subsequent years.
- recognises the significant financial uncertainty for local authorities.
- accepts the Forecast Report in order to estimate the potential level of savings required.
- requests the Chief Officers' Management Team to identify proposals for additional major savings for 2015/16.
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1 BACKGROUND

1.1 The Budget/MTP approved by Council in February

APPROVED BUDGET and MTP	FORECAST	BUDGET	MTP		
	2013/14	2014/15	2015/16	2016/17	2017/18
	£000	£000	£000	£000	£000
BUDGET/MTP	22,764	22,198	22,755	23,046	24,227
Special and Specific Grants adjustment	-126	-100			
APPROVED BUDGET/MTP	22,638	22,098	22,755	23,046	24,227
FUNDING					
Use of revenue reserves	-2,128	-1,984	-1,458	0	0
Remaining EOY	8,668	6,684	5,226	5,226	5,226
New Homes Grant	-2,905	-3,505	-4,489	-5,964	-6,832
Formula Grant (RSG)	-6,019	-4,600	-4,255	-3,936	-3,641
Retained Business Rates	-4,004	-4,127	-4,230	-4,336	-4,444
Collection Fund Deficit	-76				
Council Tax	-7,506	-7,882	-8,323	-8,810	-9,311
COUNCIL TAX LEVEL	£133.18	£137.85	£142.67	£147.67	£152.84
% increase	3.63%	3.51%	3.50%	3.50%	3.50%
£ increase	£4.67	£4.67	£4.82	£4.99	£5.17

Unidentified Spending Adjustments still required	0	-1,500	-1,856	-2,687	-2,637
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2. 2012/13 ACTUALS

2.1 The table below summarises the impact of the 2012/13 outturn:

2012/13 ACTUALS	FORECAST 2012/13 £000	ACTUAL 2012/13 £000	VARIATION £000
REVENUE			
Spending	22,028	20,398	-1,630
Provision for Delayed Projects 12/13 to 13/14	398	750	352
Contribution to Special Reserve	0	1,000	1,000
	22,426	22,148	-278
Reserves EOY			
General Reserve	10,398	10,587	189
Delayed Projects			
Carried Forward 12/13 to 13/14	398	750	352
Carried Forward 11/12 to 13/14	0	236	236
Special Reserve	260	1,260	1,260
CAPITAL			
Net Capital Spending	7,278	6,510	-768
Spending delayed to 2013/14	500	1,207	707

3 INFLATION AND INTEREST

3.1 The only change to inflation rates at this stage of the financial cycle is to reduce the provision for Pay Awards as shown below:

PAY INFLATION	<i>for Apr 2014</i>	<i>for Apr 2015</i>	<i>for Apr 2016</i>	<i>for Apr 2017</i>	<i>for Apr 2018</i>
<i>Approved Budget/MTP</i>	2.0%	2.0%	2.0%	2.0%	2.0%
<i>Forecast</i>	1.0%	1.0%	1.0%	1.0%	1.0%

3.2 Interest rates have been changed as shown below:

Approved Budget/MTP

INTEREST RATES	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018	2018 2019
Temporary Borrowing	0.4%	0.4%	0.76%	1.2%	1.7%
Temporary Investments	0.6%	0.6%	0.86%	1.3%	1.8%
PWLB 20 year borrowing	3.73%	3.80%	4.05%	4.30%	4.5%

Forecast

INTEREST RATES	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018	2018 2019
Temporary Borrowing	0.40%	0.50%	0.75%	1.15%	1.50%
Temporary Investments	0.55%	0.65%	0.90%	1.30%	1.65%
PWLB 20 year borrowing	4.00%	4.15%	4.30%	4.40%	4.50%

4. LATEST FORECAST FOR CURRENT YEAR

4.1 After allowing for additional spending brought forward from 2012/13 (£588k) and the expected slippage of Local Plan Funding (£223k) to 2014/15, there is a forecast need to take a further £258k from reserves. This “overspend” is due to changes in net service spending (-£42k) and a forecast reduction in Business Rates income (+£300k) as a result of successful appeals. The service variations are mainly due to lower estate’s rents (£100k) and delayed savings on One Leisure (£167k) offset by a reduced provision for debt repayments due to capital programme slippage last year (-£137k) and a variety of savings primarily from not filling vacancies. At present the only significant item that is assumed to be ongoing is estate’s rents.

4.2 Obviously every effort will continue to be made to identify compensating savings.

5. GOVERNMENT SPENDING REVIEW

5.1 There were three elements covered in the Spending Review which are explained in the following sections.

5.2 Council Tax Limitation

The Government has indicated that Council Tax rises will be limited to 2% unless a positive referendum result is obtained. Last year there was a similar limit but there was a dispensation for District Council's who had Council Tax levels below the average which allowed a rise of 3.63%. It is not yet clear whether this will be permitted in the future and so the Risk Provision has been adjusted to provide for the difference between the previously planned increases and 2%.

5.3 Formula Grant (RSG)

The Government have issued the control totals for changes to their support for local government but there are still some areas of uncertainty including how the totals will be apportioned to the various classes of authority and then between individual authorities in each class. This will remain uncertain until draft settlement figures are published in November/December.

The current best estimate is that this Council will lose around a further £1.3m per year in 2015/16.

5.4 New Home Bonus

The Government have proposed that local authorities be required to pass on a total of £400m of New Homes Bonus to their Local Enterprise Partnership (LEP). This will be converted into a standard percentage of the Bonus received but there is uncertainty about what the national total that will be payable and hence what percentage the £400m will represent.

Indications of between 35% and 40% have been suggested but the Government has also suggested an alternative whereby County Council's have to pass on 100% and then the District percentage would reduce to 19% to 25%. 30% has been used for this forecast.

Whichever approach is taken this is a very sizeable amount as can be seen in the table below:

SPENDING REVIEW	2014	2015	2016	2017	2018
	2015	2016	2017	2018	2019
	£000	£000	£000	£000	£000
Loss of Formula Grant (RSG)	100	1,300	1,333	1,366	1,400
Council Tax Limitation at 2%##	80	149	190	236	285
Loss of New Homes Bonus at:					
40%		1,796	2,386	2,733	2,961
35%		1,571	2,087	2,391	2,591
30%		1,347	1,789	2,050	2,221
25%		1,122	1,491	1,708	1,851
19%		853	1,133	1,298	1,407
Total impact based on 30%	180	2,796	3,312	3,652	3,906

net of risk provision provided in approved budget/MTP which assumed the Council might face some restriction in achieving its planned Council Tax increases.

- 5.5 This will have a major impact on the Council's financial position and ability to maintain services. A response has therefore been made to the Government's consultation on New Homes Bonus highlighting the disproportionate impact on those authorities that have achieved high housing growth.
- 5.6 There is uncertainty about what will happen to Government support for Councils after the 2015 General Election and so there is provision in the risk contingency for a fall of 2.5% per year in cash terms – potentially 5% in real terms.

6. RISK PROVISION

6.1 The Risk Provision contained in the existing Budget/MTP is the "Low End" assumption shown at Annex A.

6.2 Annex B shows the revised proposal and the difference is highlighted below:

RISK PROVISION	2014	2015	2016	2017	2018
	2015	2016	2017	2018	2019
	£000	£000	£000	£000	£000
Current Risk Provision (Annex A)	1,078	1,598	2,567	3,085	3,831
Proposed Risk Provision (Annex B)	998	1,583	2,321	3,112	3,933
Variation	-79	-16	-245	+27	+102

6.3 As mentioned earlier, an allowance is included in case there is no relaxation of the proposed limit of 2% for Council Tax rises for those Districts currently taxing at below average levels.

7 RESULTING FORECAST

PROPOSED BUDGET/MTP	FORECAST	BUDGET	MTP			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000	£000	£000
2013/14 BUDGET/MTP	22,638	22,098	22,755	23,046	24,227	25,141
Proposed variations	324	-8	-2,987	-3,096	-3,068	-2,975
NEW FORECAST	22,962	22,090	19,768	19,950	21,159	22,166
FUNDING						
Use of revenue reserves	-2,752	-2,386	-1,435			
Remaining reserves EOY	8,821	6,435	5,000	5,000	5,000	5,000
New Homes Bonus	-2,905	-3,505	-3,142	-4,175	-4,782	-5,182
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Collection Fund Deficit	-76					
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COUNCIL TAX LEVEL	£133.18	£137.85	£142.67	£147.67	£152.84	£158.19
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£ increase	£4.67	£4.67	£4.82	£4.99	£5.17	£5.35

Savings Required:						
• Targetted		1,377	1,852	2,050	2,090	2,090
• Unidentified		138	2,620	2,948	3,181	3,694

Forecast Capital Spending	9,570	2,789	3,647	3,866	3,967	3,347
Net Interest and Borrowing Costs						
- total	1,358	2,008	2,409	2,738	3,235	3,812
- as % of total net spending	5.9%	9.1%	12.2%	13.7%	15.3%	17.2%

7.1 It was agreed during the 2013/14 budget/MTP process that Council approval would be required before the net cost of interest and borrowing could exceed 15% of net spending. The above table indicates that 15% may be exceeded from 2017/18. The increase is not due to any change in capital spending but the variation in interest rates and, much more significantly, the proposed reduction in net spending. If net spending in 2018/19 was retained at last year's level of £25.1M then the percentage would be 15.2% rather than the 17.2% shown above. This issue will be included in the draft budget/MTP report in December.

8 EXISTING SAVINGS PROPOSALS – Required by approved budget/MTP

- 8.1** Annex C provides a list of costed items and items under active consideration. The costed items are a mixture of specific (some definite) and targets. It is currently anticipated that the “active consideration” items will be sufficient to cover any shortfall in the costed items but will not provide any significant excess.
- 8.2** Work has started on confirming and achieving these savings and the December draft budget report will make any necessary adjustments to reflect the latest view of any under/over achievements in the current and future years. An estimate of the impact of the Pay Review will also be available to feed into the process.
- 8.3** The Government introduced a new localised Council Tax support system from April this year. Their original proposal was to completely protect Town and Parish Councils from the impact but they revised the final arrangements resulting in the Towns and Parishes receiving a lower taxbase and hence a higher level of precept (Council Tax) to achieve the same spending level. As this change was made late in the process and some Councils had already agreed their precept for 2013/14 this Council decided to provide a grant to compensate for this change. It is not proposed to continue this grant beyond the current financial year but, in order to give the Towns and Parishes adequate notice, this will need to be formally confirmed.

9. ADDITIONAL SAVINGS REQUIREMENT

- 9.1** As shown in this report, additional savings of £2.6m for 2015/16 rising to £3.7m by 2018/19, on top of the currently targeted level, will be an extremely challenging task for officers and Members to achieve.
- 9.2** No organisation can ever say that no further efficiency improvements can be found but Members will be aware of the significant savings that have been achieved in previous years which, when coupled with the existing savings plan, will dramatically reduce any significant further opportunities.
- 9.3** The Managing Director is currently developing a performance management framework to link the Leadership Direction with the Budget/MTP. This will enable Members to consider the relative importance of the Council's services and ensure that available funding is focussed on the highest priorities. A service challenge process is also planned which will explore any further efficiencies and new service delivery options.

- 9.4 Once a savings plan has been identified, Members will need to consider whether it is likely that Huntingdonshire residents would support a Council Tax increase as an alternative to the service cuts proposed. To put this in context, a 20% increase in Council Tax (£23 more than the Forecast assumption) would generate an additional £1.3M.
- 9.5 This would require majority support via a referendum and might be a high risk strategy as there is the cost of a referendum, the cost of re-billing and the delay in introducing the savings to be taken into consideration if support was not obtained.

10. CONSULTATION AND COMMENTS

- 10.1 This report will be considered at a meeting of the Overview and Scrutiny (Economic Wellbeing) Panel on the 4 September and their comments will be reported to Cabinet.

11. CONCLUSIONS

- 11.1 Whilst progress is being made on achieving the previously identified savings requirement the Government's Spending Review creates additional major difficulties for the Council and its ability to deliver its current portfolio of services.
- 11.2 There is also uncertainty about what will happen to Government financial support for Councils after the 2015 General Election.
- 11.3 Reserves will be at planned minimum levels by 2015/16 and so there is no alternative but to urgently identify options for savings that can be introduced in time - this will be a major challenge.

ACCESS TO INFORMATION ACT 1985

Government Spending Review
Working Papers - Files in Financial Services
2013/14 Budget/MTP
Budget Monitoring Reports

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ANNEXS

- A Existing Risk Provision
- B Proposed Risk Provision
- C Existing Savings Proposals

APPROVED RISK PROVISION - 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 (+)				
	13/14	14/15	15/16	16/17	17/18		13/14	14/15	15/16	16/17	17/18
	£M	£M	£M	£M	£M		£M	£M	£M	£M	£M
Reduction in New Homes Bonus grant due to slower housing completions from 2014/15											
10% lower		0.050	0.150	0.300	0.450	20% lower		0.100	0.300	0.600	0.900
Reduction in Government Grant due to insufficient New Homes Bonus funding											
All bodies share loss			0.100	0.200	0.200	Local Authorities share loss			0.200	0.300	0.400
Financial Contribution to A14											
£5M over 25 years				0.200	0.200	£8M over 25 years				0.320	0.320
						Further reduction in Government Grant					
						1% per year for 3 years			0.400	0.800	1.200
Increase in net spending every year to cover cost of increased population. There is no provision for demographic growth in the forecast.											
0.425% #		0.090	0.180	0.270	0.240	0.85% #		0.180	0.360	0.540	0.600
						Change to NI Contributions re new Old Age Pension Proposals					0.300
Homelessness											
		0.100	0.100	0.100	0.100			0.200	0.200	0.200	0.200
Pay Protection and Performance pay @											
	0.320	0.640	0.960	1.300	1.600		0.320	0.640	0.960	1.300	1.600
MMI Drawdown											
		0.140						0.140			
Proposed Council Tax increases not permitted by Government											
£4 in 14/15 and 15/16 then 2.5%		0.038	0.088	0.177	0.275	£3 in 14/15 and 15/16 then 2%		0.096	0.204	0.341	0.489
						Increase in Business Rates retained					
						1% growth per year		-0.110	-0.220	-0.330	-0.440
						Loss of income in 2014/15 and 2015/16 excluding leisure and some other areas\$					
						2.5%		0.110	0.110		
						No leisure price increase					
						in 2014/15		0.170	0.170	0.170	0.170
Partial non-achievement of 2013 increase in car park charges											
10%	0.020	0.020	0.020	0.020	0.020	20%	0.040	0.040	0.040	0.040	0.040
PROPOSED RANGE FROM . .	0.340	1.078	1.598	2.567	3.085	TO....	0.360	1.566	2.724	4.281	5.779
						Extra cost of high end assumption	0.020	0.488	1.126	1.717	2.694

Cost of extra refuse round included in MTP for 2017/18 set-off

\$ Excludes Car parks (separate provision) Planning (no price rise) and Rents (based on leases)

@ Past budgets included 3.5% to cover cost of living and performance pay. 2% for potential cost of living increases is included in inflation. This Provision is the balance pending the results of a Pay Review which is underway. The Review will clarify what provision will be needed for future performance payments, transition costs and any protection that may need to be paid to staff.

PROPOSED LOW END RISK PROVISION INCLUDED IN FORECAST

LOW END ASSUMPTION INCLUDED IN FORECAST	14/15	15/16	16/17	17/18	18/19
	£M	£M	£M	£M	£M
Financial Contribution to A14					
£5M over 25 years				0.200	0.200
Reduction in New Homes Bonus grant due to slower housing completions from 2014/15					
10% lower (assumes 30% to LEP)	0.050	0.105	0.210	0.315	0.420
Increase in net spending every year to cover cost of increased population.					
0.425% per year less extra refuse round in 2017/18	0.090	0.180	0.270	0.240	0.330
Homelessness					
Provision	0.100	0.100	0.100	0.100	0.100
Proposed Council Tax increases that may not be permitted by Government					
Increase above 2% per year	0.118	0.237	0.367	0.511	0.667
Pay Protection and Performance Pay					
Provision to be adjusted in light of Pay Review	0.640	0.960	1.300	1.600	2.000
Reductions in Formula Grant post 2015/16					
2.5% cash per year (circa 5% real terms)			0.074	0.146	0.216
TOTAL INCLUDED	0.998	1.583	2.321	3.112	3.933

EXISTING SAVINGS PROPOSALS

	2014	2015	2016	2017
	2015	2016	2017	2018
	£000	£000	£000	£000
IMD - Chris Hall				
COSTED PROPOSALS				
Mobile Phones lower tariffs	20	20	20	20
Outsourced/Shared IT	50	100	100	100
FOR ACTIVE INVESTIGATION				
Reduce travelling and journey time through video conferencing				
Channel Migration				
Legal & Democratic Services - Colin Meadowcroft				
COSTED PROPOSALS				
Extra income from Document Centre	10	15	20	20
Democratic/Central Services target saving from extra income, cost savings or restructuring	20	20	20	20
Outsourced/Shared Legal Service	25	25	25	25
FOR ACTIVE INVESTIGATION				
Investigate integration of Licensing into Environmental Health				
Not give day off for elections				
Operations - Eric Kendall				
COSTED PROPOSALS				
Ops Management and admin budget savings	80	80	80	80
Outsourced/Shared CCTV Service with Cambridge City	20	100	100	100
Lower R&R contributions	25	25	25	25
Investigate savings in Street Cleansing	70	70	70	70
FOR ACTIVE INVESTIGATION				
RECAP (County wide project investigating Waste/Refuse options)				
Investigate reduction in Grounds Maintenance budget re. litter picking				
Investigate outsource of catering at Hinchingsbrooke Park				
Corporate Office - Helen Donnellan				
COSTED PROPOSALS				
Give up Performance Management budget	18	23	23	23
Corporate Office target saving from extra income, cost savings or restructuring	40	40	40	40
Increased income from proactive management of commercial estate	20	40	50	50
Review of contracts			20	30
Investigate integration of FM and Estates (part of Environmental Management target)				

	2014	2015	2016	2017
	2015	2016	2017	2018
	£000	£000	£000	£000
Customer Services - Julia Barber				
COSTED PROPOSALS				
Call Centre target saving from extra income, cost savings or restructuring		25	25	25
Outsourced/Shared Revs and Bens	50	150	150	100
FOR ACTIVE INVESTIGATION				
Channel Migration				
Investigate Shared Housing Register				
Investigate Shared Fraud				
Environmental Management - Paul José				
COSTED PROPOSALS				
Environmental Management - Combination of	200	250	250	250
Integration of FM and Estates				
Sharing				
Revenue generation activities/additional income				
Reduced energy and maintenance costs PFH and EFH				
Savings in Street naming and numbering and other budgets				
FOR ACTIVE INVESTIGATION				
Reduce office space, more hot desking and rent space out				
One Leisure - Simon Bell				
COSTED PROPOSALS				
Staff restructuring and increases in income				
<i>already included in MTP</i>				
FOR ACTIVE INVESTIGATION				
Investigate outsource of catering at Leisure Centres				
Finance & Resources - Steve Couper				
COSTED PROPOSALS				
Reduce Audit Fees budget	40	40	40	40
Identify and remove other spare budgets across the Council	50	50	50	50
Advertising opportunities	20	25	25	25
Reduce training budgets to focus on priorities	20	20	20	20
Outsourced/Shared Debtors	25	25	25	25
Margin on Loans to RSLs etc.	30	75	125	175
Other emerging minor staffing adjustments	25	50	75	100
No Grants to Towns/Parishes re Housing Support	357	357	357	357
FOR ACTIVE INVESTIGATION				
Further budget reviews				

	2014	2015	2016	2017
	2015	2016	2017	2018
	£000	£000	£000	£000
Environment, Growth & Planning - Steve Ingram				
COSTED PROPOSALS				
CIL related staff reorganisation	30	30	30	30
Selling planning expertise to other authorities (target)	20	20	20	20
Planning staff savings (existing vacancies)	50	50	50	50
Investigate integrating Housing Strategy with Planning Policy	25	50	50	50
FOR ACTIVE INVESTIGATION				
Further potential increase in car park charges				
Development Control Fees increase in excess of MTP assumption				
Environmental & Community Health - Sue Lammin				
COSTED PROPOSALS				
Deletion of post in Commercial Team		35	35	35
Give up Arts Development budget	11	11	11	11
Voluntary Grants reduction			50	50
Primary Authority Scheme	10	10	10	10
Premises Permitting Scheme	4	4	4	4
Community Safety work for others	5	10	15	20
Reduce DASH Team budget	7	7	7	7
Review Community Development			33	33
FOR ACTIVE INVESTIGATION				
Investigate shared Environmental Health with Cambridge City				
HSE Enforcement interventions income				
Investigate Outsource/Share Pest Control and Animal Warden				
Investigate Sports and Active Lifestyle business development				
Investigate integration of Licensing into Environmental Health				