

**HUNTINGDONSHIRE DISTRICT COUNCIL**

<b>Title/Subject Matter:</b>	<b>BUDGET 2014/15 AND MEDIUM TERM PLAN 2015 to 2019</b>
<b>Meeting/Date:</b>	<b>Cabinet – 13 February 2014</b>
<b>Executive Portfolio:</b>	<b>Resources</b>
<b>Report by:</b>	<b>Assistant Director, Finance and Resources</b>
<b>Ward(s) affected:</b>	<b>All</b>

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**Executive Summary:**

The purpose of this report is to allow the Cabinet to make its recommendations to Council on 26 February on the Council's Budget, Medium Term Plan and Council Tax level for 2014/15.

Although generally anticipated, this Council's Formula Grant fell by 24% for 2014/15.

The proposed top-slicing of New Homes Bonus did not take place, which significantly reduces the immediate pressure for savings.

The Government has offered a Council Tax Freeze Grant for 2014/15 of 1% for two years. The limit on Tax increases that would be permitted without a positive referendum result will not be announced until mid-February but it is rumoured that it will be less than 2%. The Minister has indicated that there will be no special arrangements for low taxing Districts like Huntingdonshire next year. In order to allow debate of all options the proposed budget is currently based on no Council Tax increase for 2014/15. Future Tax levels are based on 2% per year but allowance is made in the Risk Provision for a nil rise in 2015/16 in case the position mirrors what may emerge this year.

Savings continue to be successfully identified and delivered and this will result in forecast savings of £1.6M this year (£0.5M is as a result of projects being delayed until next year leaving a net benefit of £1.1M). This means that our reserves at the beginning of April will be £10M after using £0.6M from reserves to balance the budget.

Provision has been specifically made for the most significant or more certain risks.

A balance has been taken between progress on savings and the use of reserves in order to ensure that savings are properly targeted and effectively delivered to manage service impact. It also results in more comfortable reserve levels over the next few years when the greatest uncertainty on Government Funding levels is anticipated. Unidentified savings of £0.7M for 2015/16 rising to £2.1M in 18/19 are required and the Facing the Future exercise will form a base for identifying these.

The resulting Budget and MTP:

PROPOSED BUDGET/MTP	FORECAST	BUDGET	MTP			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000	£000	£000
<b>2013/14 BUDGET/MTP</b>	<b>22,764</b>	<b>22,198</b>	<b>22,755</b>	<b>23,046</b>	<b>24,227</b>	<b>25,141</b>
Proposed variations	-1,638	-1,328	-2,366	-2,752	-3,364	-3,186
<b>PROPOSED 2014/15</b>	<b>21,126</b>	<b>20,870</b>	<b>20,389</b>	<b>20,294</b>	<b>20,863</b>	<b>21,955</b>
<b>FUNDING</b>						
Use of revenue reserves	-568	-1,005	-1,117	-437	-555	-776
<b>Remaining revenue reserves EOY</b>	<b>10,032</b>	<b>9,027</b>	<b>7,910</b>	<b>7,473</b>	<b>6,918</b>	<b>6,142</b>
New Homes Bonus	-2,905	-3,344	-4,013	-4,993	-5,628	-6,340
Council Tax Freeze Grant		-82	-82	0	0	0
Formula Grant (RSG)	-6,019	-4,562	-3,074	-2,400	-1,800	-1,500
Retained Business Rates	-4,052	-4,218	-4,245	-4,351	-4,460	-4,572
Collection Fund Deficit	-76	-21				
Council Tax	-7,506	-7,639	-7,858	-8,112	-8,420	-8,767
<b>COUNCIL TAX LEVEL</b>	<b>£133.18</b>	<b>£133.18</b>	<b>£135.84</b>	<b>£138.56</b>	<b>£141.33</b>	<b>£144.16</b>
% increase	<b>3.63%</b>	<b>0.00%</b>	<b>2.00%</b>	<b>2.00%</b>	<b>2.00%</b>	<b>2.00%</b>
£ increase	<b>£4.67</b>	<b>£0.00</b>	<b>£2.66</b>	<b>£2.72</b>	<b>£2.77</b>	<b>£2.83</b>
<b>Unidentified Spending Adjustments still required</b>						
<b>Proposed MTP</b>	<b>0</b>	<b>0</b>	<b>-700</b>	<b>-1,300</b>	<b>-1,800</b>	<b>-2,100</b>
<b>Current MTP</b>		<b>-1,500</b>	<b>-1,856</b>	<b>-2,687</b>	<b>-2,637</b>	<b>-3,374</b>

The Council's Chief Financial Officer considers that the budget for 2014/15, is sufficiently robust and that there are adequate reserves though he draws attention to:

- the need to make prompt progress with identifying the savings required for future years especially recognising the major and increasing reliance on New Homes Bonus which may be vulnerable to change.
- The importance of effective financial monitoring.

**Recommendations:**

**That Cabinet Recommend to February Council:**

- Approval of the proposed Budget and MTP as shown in the Budget Tables in the Appendix to this report.
- Acceptance that the 15% limit on Net Interest and Borrowing Costs has been breached but that the actions described in Para. 8.6c be undertaken over the next year to mitigate the impact.
- A Council Tax level for 2014/15.

**That Cabinet endorse**, subject to Council approving the Budget,

- the additional approvals required for those MTP schemes highlighted in Appendix – Table 4.

## 1 PURPOSE

1.1 The purpose of this report is to allow the Cabinet to make its recommendations to Council on 26 February on the Council's Budget, Medium Term Plan and Council Tax level for 2014/15.

## 2 BACKGROUND

2.1 The budget/MTP approved in February 2013 was as shown below:

APPROVED 2013 BUDGET/MTP	BUDGET	MTP			
	2013/14	2014/15	2015/16	2016/17	2017/18
	£000	£000	£000	£000	£000
<b>FORECAST</b>	<b>22,764</b>	<b>22,198</b>	<b>22,755</b>	<b>23,046</b>	<b>24,227</b>
<b>FUNDING</b>					
Use of revenue reserves	-2,254	-2,084	-1,458	0	0
<b>Remaining reserves EOY</b>	<b>8,542</b>	<b>6,458</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>
New Homes Bonus	-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
<b>COUNCIL TAX LEVEL</b>	<b>£133.18</b>	<b>£137.85</b>	<b>£142.67</b>	<b>£147.67</b>	<b>£152.84</b>
% increase	<b>3.63%</b>	<b>3.51%</b>	<b>3.50%</b>	<b>3.50%</b>	<b>3.50%</b>
£ increase	<b>£4.67</b>	<b>£4.67</b>	<b>£4.82</b>	<b>£4.99</b>	<b>£5.17</b>
<b>Unidentified Spending Adjustments still required</b>	<b>0</b>	<b>-1,500</b>	<b>-1,856</b>	<b>-2,687</b>	<b>-2,637</b>

2.2 In September a Forecast Report was presented to Council which took account of:

- the 2012/13 outturn
- reduced Formula Grant (RSG)
- a top slice of New Homes Bonus (NHB) to be transferred to the Local Enterprise Partnership (LEP)
- a list of targeted savings.

2.3 This gave the following position:

SEPTEMBER 2013 FORECAST	FORECAST	BUDGET	MTP			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000	£000	£000
<b>FORECAST</b>	<b>22,962</b>	<b>22,090</b>	<b>19,768</b>	<b>19,950</b>	<b>21,159</b>	<b>22,166</b>
<b>FUNDING</b>						
Use of revenue reserves	-2,752	-2,386	-1,435			
<b>Remaining reserves EOY</b>	<b>8,821</b>	<b>6,435</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>
New Homes Bonus	-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
<b>COUNCIL TAX LEVEL</b>	<b>£133.18</b>	<b>£137.85</b>	<b>£142.67</b>	<b>£147.67</b>	<b>£152.84</b>	<b>£158.19</b>
% increase	<b>3.63%</b>	<b>3.51%</b>	<b>3.50%</b>	<b>3.50%</b>	<b>3.50%</b>	<b>3.5%</b>
£ increase	<b>£4.67</b>	<b>£4.67</b>	<b>£4.82</b>	<b>£4.99</b>	<b>£5.17</b>	<b>£5.35</b>

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

2.4 Due to the continued uncertainty in many areas it was decided not to produce a Draft Budget/MTP in December but only to provide an update to the Forecast Report. Before the report reached Council it had to be updated to reflect the very late notification of the draft local government finance settlement.

2.5 This gave the proposed reductions in Formula Grant for 2014/15 and 2015/16 but also the very good news that New Homes Bonus would not, after all, be top sliced this year. It resulted in the position below:

December 2013 Update REVENUE SAVINGS	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
<b>From September Forecast Report</b>					
Targetted	-1,377	-1,852	-2,050	-2,090	-2,090
Unidentified	-138	-1,273	-1,159	-1,131	-1,473
<b>total</b>	<b>-1,515</b>	<b>-3,125</b>	<b>-3,209</b>	<b>-3,221</b>	<b>-3,563</b>
<b>% of Budget</b>	<b>6.4%</b>	<b>12.9%</b>	<b>12.9%</b>	<b>12.2%</b>	<b>12.7%</b>
<b>Identified so far (from above)</b>	<b>-719</b>	<b>-1,532</b>	<b>-1,702</b>	<b>-1,848</b>	<b>-1,794</b>
<b>Still required</b>	<b>-796</b>	<b>-1,593</b>	<b>-1,507</b>	<b>-1,373</b>	<b>-1,769</b>
<b>% of Budget</b>	<b>3.4%</b>	<b>6.6%</b>	<b>6.0%</b>	<b>5.2%</b>	<b>6.3%</b>

### 3. SUBSEQUENT CHANGES IN SPENDING

- 3.1 The **savings** included in the original budget and those subsequently identified as “targeted” savings are being monitored and the latest forecast of their achievements in both value and timescale are included in the proposed MTP. The Facing The Future exercise has also identified a significant number of potential savings in the “No significant service impact” category and many of these have also been included.
- 3.2 There have also been some **increased costs** identified. Examples include the latest forecasts of car parking income and the fact that the County Council have informed us that they will require us to pass the net surplus on on-street parking to them in future to fund their Transportation schemes.
- 3.3 The impact of the **Pension Fund Revaluation** has also been assessed. Whilst it requires further increases the MTP already included provision for much of this and because the new requirement is staggered it produces significant savings for 2014/15 (£589k) which reduces until additional funding of £156k per year is required from 2017/18. There is also a change to the regulations from April that makes all overtime pensionable with the added cost of contributions being £67k.
- 3.4 The table below summarises these changes:

SPENDING ADJUSTMENTS since the December Update Report	FORE CAST	BUDGET	MTP			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000	£000	£000
Savings - Facing the Future	-100	-377	-496	-511	-476	-476
Savings - Other	-57	-121	-220	-166	-167	-172
Extra expenditure	151	123	129	136	147	150
Technical - Pensions	0	-522	-216	159	223	223
Technical - Reduction in Unidentified Savings	0	1,500	1,156	1,387	837	1,274
Technical - Other	-661	-133	-274	-538	-166	26
Risk Provision	-20	-1,078	-912	-1,516	-1,913	-2,415
<b>Total</b>	<b>-687</b>	<b>-608</b>	<b>-833</b>	<b>-1,049</b>	<b>-1,515</b>	<b>-1,391</b>

The **Appendix – Table 6** shows all the variations with those post the December report having a black highlight in the first column.

### 4. FUNDING

- 4.1 Information about the **Council Tax Freeze grant** has been received and the Council would receive £82k in 2014/15 and 2015/16 if it were to freeze or reduce its current Council Tax level of £133.18 for 2014/15. There have been suggestions that such grants would be built into the base so they would be permanent but the letter received from the government makes no reference to this and so the figures in this report just assume the two years.
- 4.4 Part of the draft settlement was the information on Retained Business Rates for 2014/15 and 2015/16. Members will recall that during this first year of the retention it

has been very difficult to forecast the expected levels with any degree of precision due to the significant number of valuation appeals still awaiting determination. Successful appeals are usually backdated for a number of years making the result very volatile. During the latter part of the current year it has become clear that we may achieve the Government's assumed base level. The approach taken in the proposed MTP is therefore to assume that the base line figures will be achieved but to include in the Risk Contingency a sum half way between the base line and the safety net level.

## 5. OUTSTANDING ITEMS

5.1 The following items are still outstanding and will require assumptions to be made in order to finalise the budget:

### **The limit for Council Tax increases without a positive referendum**

The Government had signalled a limit of 2% but has now stated that the figure will not be released until the second week of February. There are strong rumours that the limit will be less than 2%. Obviously any reduction below 2% considerably weakens the argument for an increase even recognising the longer term impact on the base. This report is therefore based on a freeze for 2014/15 and section 7 below outlines the impact of alternative decisions.

### **Pay Review**

The figures contained in the report to Cabinet's January meeting include some forecasts and two contingency elements.

### **Continued Uncertainty**

Assumptions on Formula Grant post 2015/16 continue to show reductions but could be subject to significant change. The New Homes Bonus process could be amended as originally proposed this year or in some other way.

## 6. RISK PROVISION AND OTHER POTENTIAL RISKS

6.1 The Risk Provision included in the MTP is shown below:

Risk Provision in MTP	14/15	15/16	16/17	17/18	18/19
	£000	£000	£000	£000	£000
Formula Grant reduction due to New Homes Bonus		100	200	200	200
Reduced New Homes Bonus (long term empty properties)	0	60	70	80	90
Provision for demographic growth #	0	90	180	150	240
Zero tax rise in 2016/17 with 1% reward grant for 2 years		72	77	165	172
Pay Protection and Performance Pay	184	114	274	427	565
Homelessness	50	100	100	0	0
NNDR - Appeals (Half way between base level and safety net)		150	150	150	150
Repayment of land charge fees - assume half	86	0	0	0	0
	<b>320</b>	<b>686</b>	<b>1,051</b>	<b>1,172</b>	<b>1,417</b>

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

6.2 **Annex A** provides a list of other risks that could affect the Council during the MTP period for which no financial adjustment has been made. If they result in an increase in net cost, this will have to be met from revenue reserves until other savings can be achieved.

## 7. COUNCIL TAX INCREASES

7.1 Huntingdonshire continues to have a very low level of Council Tax. In the current year the Council's £133.18 charge (Band D) was 28<sup>th</sup> lowest of the 201 District Councils which have an average of £167 and a maximum of £316. Almost two thirds of Huntingdonshire's properties are in Bands A to C and so have a lower Tax level.

7.2 As referred to above the Government is encouraging authorities not to increase Council Tax for 2014/15 with the offer of a special grant approximating to 1% of 2013/14 Council Tax income for two years.

7.3 Last year Huntingdonshire was permitted to increase its Council Tax by almost £5 (3.63%) because it had one of the lowest 20% of Council Tax levels. It is not anticipated that this offer will be repeated. However, to cover every eventuality the following table compares the impact of a number of scenarios compared to the base assumption of no increase this year and effectively no increase in 2015/16 either. This is because provision is included in the Risk Contingency for the headline level of 2% not being attractive in the light of the combination of the Government's limitation rules and reward grants for 2015/16. 2% per year is assumed post 2015/16.

	2014/15	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000	£000
<b>BASE OPTION</b>					
Council Tax Increase	£0	2%	2%	2%	2%
<b>After Risk Provision</b>	£0	£0	2%	2%	2%
OPTION 1	£5	2%	2%	2%	2%
<b>CHANGE IN SAVINGS NEEDED</b>	-205	-285	-381	-481	-501
OPTION 2	2%	2%	2%	2%	2%
<b>CHANGE IN SAVINGS NEEDED</b>	-71	-147	-239	-334	-347
OPTION 3	1.5%	2%	2%	2%	2%
<b>CHANGE IN SAVINGS NEEDED</b>	-33	-108	-198	-291	-303
OPTION 4	1%	2%	2%	2%	2%
<b>CHANGE IN SAVINGS NEEDED</b>	5	-69	-158	-249	-259
OPTION 5	£0	2%	3.5%#	3.5%	3.5%
<b>CHANGE IN SAVINGS NEEDED</b>		-72	-196	-415	-564

+ = more required   - = less required

# Previous policy was a rise of 3.5% per year.

7.4 It is assumed that £5 would only be considered if it was permitted by the Government. If it was not it would require a positive referendum result. This would be

a very high risk without any guarantee of a return because a referendum would cost around £70k even if at the same time as the European Elections. If unsuccessful, rebilling would amount to a further £70k.

## 8. RESERVES OR SAVINGS

- 8.1 Once the net cost of services and the main funding elements have been determined or estimated there are only two ways left to balance the budget each year. One is to use our revenue reserves until they reach the minimum prudent level and the other is to identify further savings targets.
- 8.2 Whilst the Facing the Future savings exercise is progressing well there are still many months of work to be undertaken before all of the 460 items have been researched to the point of having definite savings levels and phasing. Given this situation it would not be prudent to assume an over-optimistic level of savings for 2015/16. However it would also be inappropriate to reduce reserve levels too quickly because, as mentioned previously, there are major uncertainties about future Government Funding to Local Authorities. It is clear that further reductions will take place post 2015/16 and the scale of potential changes to the New Homes Bonus, which is an increasingly major element of the Council's funding, was highlighted earlier in the year.
- 8.3 Thus a mid-course has been taken involving both targeting savings and the use of reserves each year to give the following position.

PROPOSED BUDGET/MTP	FORECAST 2013/14 £000	BUDGET 2014/15 £000	MTP			
			2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
<b>2013/14 BUDGET/MTP</b>	<b>22,764</b>	<b>22,198</b>	<b>22,755</b>	<b>23,046</b>	<b>24,227</b>	<b>25,141</b>
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<b>Unidentified Spending Adjustments still required</b>						
<b>Proposed MTP</b>	<b>0</b>	<b>0</b>	<b>-700</b>	<b>-1,300</b>	<b>-1,800</b>	<b>-2,100</b>
<b>Current MTP</b>		<b>-1,500</b>	<b>-1,856</b>	<b>-2,687</b>	<b>-2,637</b>	<b>-3,374</b>



8.4 Last year Council agreed that an MTP with Interest and Borrowing Costs in excess of 15% of net expenditure would need specific consideration. The table below shows the position for the proposed MTP:

PROPOSED BUDGET/MTP	FORECAST	BUDGET	MTP			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000	£000	£000
Forecast additional borrowing	11,041	3,823	2,111	3,545	3,614	3,069
Average borrowing in year net of Minimum Revenue Provision	31,883	37,945	39,104	39,857	41,103	41,798
Net Interest and Borrowing Costs						
- total	1,444	1,903	2,282	2,460	2,978	3,592
- as % of net spending	6.8%	9.1%	11.2%	12.1%	14.3%	16.4%
- value in excess of 15%						299

8.5 The 2018/19 forecast Net Interest and Borrowing Costs would have represented 14.3% of the current MTP's forecast of Net Spending of £25,141k. It is the fall in spending due to the savings targets that has increased the percentage to 16.4%.

8.6 Cabinet have three options:

- a) To insist that the 15% limit is maintained by reducing capital expenditure. It may not be possible to reduce the capital programme sufficiently to achieve this given the fact that it is relatively low in historical terms and concentrates on those items that are necessary to preserve services (e.g. refuse freighters or IT equipment), preserve buildings (e.g. major maintenance) or is a statutory requirement (e.g. Disabled Facilities Grants). To save a revenue impact of £299k would require capital reductions of approximately £3M.
- b) To insist that the 15% limit is maintained by funding some of the schemes from revenue. The revenue impact of achieving the limit by this method would be in the order of £3M though this would create savings of £300k per year thereafter. It is difficult to recommend considering such a move until the majority of the savings target is seen to be achievable.
- c) To agree to recommend the current MTP to Council. The MTP proposal to increase the volume of margin-making loans to fund relevant projects with appropriate partners will lead to a reduction in the excess (£30M of loans with a 1% margin would cover the £299k). A careful review of the capital programme can also be programmed into the coming year to see if there are any possibilities of savings (this is certainly possible on the IT front if we have a shared service with LGSS due to their additional market leverage).

8.7 The following annexes showing the detail of the proposed Budget and MTP:

**Appendix – Table 2**

Overall Budget and MTP – Subjective analysis

**Appendix – Table 3**

Head of Service Budgets – Subjective and Objective analysis

8.8 **Appendix – Table 4** shows all the MTP variations from the 2013/14 approved budget level. This includes the variations included in last year's MTP together with the new variations this year shown in **Table 5**. All items can proceed on the decision of the relevant Head of Service except those that are highlighted as needing the additional levels of approval shown.

## 9. RESERVES AND THE ROBUSTNESS OF THE 2014/15 BUDGET

9.1 The Local Government Act 2003 requires the Assistant Director, Finance and Resources, as the Council's Chief Financial Officer, to report to the Council on the robustness of the estimates and the adequacy of reserves when it considers its budget and the consequent Council Tax. His comments are contained in **Annex B** and confirm that the budget is adequately robust and that, in his view, the level of revenue reserves is currently above the minimum level required.

## 10. CONSULTATION AND COMMENTS

10.1 This report will be considered at a meeting of the Overview and Scrutiny (Economic Wellbeing) Panel on the 6 February and a consultation meeting with members of the business community on 10 February. Comments from both meetings will be reported to Cabinet.

## 11. PRUDENTIAL CODE

11.1 The Prudential Code sets various limits relating to the budget and this has been included as an annex to the Treasury Management Strategy elsewhere on the Cabinet's agenda.

## **ACCESS TO INFORMATION ACT 1985**

Grant Settlement Information – Files in Financial Services

Working Papers - Files in Financial Services

Project Appraisals

2013/14 Revenue Budget and the 2014/18 MTP

Forecast Report

December 2013 Update Report

**Contact Officer: Steve Couper**

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## **ANNEXS**

- A     Risks for which no or limited provision has been made in the Risk Contingency
- B     Chief Financial Officer's statement on robustness of budget and adequacy of reserves (including information about main assumptions and sensitivity analysis)

## **SEPARATE APPENDIX OF BUDGET TABLES**

### **Table**

- 1 Overall Summary
2. Overall Budget and MTP – Subjective analysis
3. Head of Service Budgets – Subjective and Objective analysis
4. All MTP variations from the 2013/14 base, highlighting those needing approval before commencement. i.e. previous years and current years approvals
5. All MTP changes to the current approved MTP (Those since the December update report have a black indicator in the first column.
6. Capital Programme

## OTHER POTENTIAL RISKS

The most fundamental issue is the speed with which the UK economy will grow and its impact on Government funding of local authorities and the resources of Huntingdonshire residents. There are conflicting views on the scale and speed of this recovery and so it is difficult to forecast the impact on:

- Income from planning fees, building control fees and leisure charges.
- House building and hence New Homes Bonus (15% caution built in)
- More applicants for housing and council tax benefit
- Higher homelessness costs (£50k provision in 2014/15)
- Reductions in Government Grant (assumption made post 2015/16 but limited data to base this on)

Other issues include:

- Delivery of the items contained in identified savings
- Identification and consequent delivery of items to achieve the level of unidentified savings required in future years.
- Levels of pay awards, inflation and interest rates
- Results of Pay Review (reasonable estimate included with some contingency provision)
- Ability to maintain income levels
- Impact of variations in retained Business Rates (very volatile due to appeals)
- Change in Pension Fund contributions payable from April 2018 as a result of the three yearly revaluation.
- 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 (e.g. planning appeals)
- The potential for costs relating to “orphan” contaminated land sites
- Repayment of past land charge fees (part provision in contingency)
- Low demand for sites in Huntingdon e.g. assumed sale of plot fronting St. Mary’s Street.

**RESERVES AND THE ROBUSTNESS OF THE 2014/15 BUDGET**

The Local Government Act 2003 requires me, as the Council's Chief Financial Officer, to report on the robustness of the 2014/15 budget and the adequacy of reserves to assist you in making your decisions on the Budget and the level of Council Tax.

**Robustness**

The Council has tended in recent years to underspend its budget. This demonstrates that there is an element of prudent budgeting and that managers have taken a mature approach to budgetary control rather than simply spending any spare sums on low priority items. As budgets further tighten this opportunity will significantly diminish.

The Internal Audit and Risk Manager considers that our internal financial controls are working adequately. There is also a sound system of financial monitoring which has been developed further this year and will be further extended next year to ensure that any non-achievement of budgets is promptly recognised and reported. The process this year has been used to ensure that any necessary budget variations have fed into this budget/MTP process.

The 2014/15 budget has been prepared using the budget for 2013/14 as a base, and amending it for known changes, particularly:

- Inflation including a 1.5% provision for an April 2014 pay award. There will be no performance pay in 2014/15. Pay is by far the most significant inflation element.
- The impact of the 2012/13 outturn and forecast spending for 2013/14.
- Variations in existing budgets and MTP schemes together with new MTP proposals. A significant number of these reflect savings rather than extra costs.

There have been some proposals in previous MTPs that included an element of challenge which has not always turned out to be achievable. I am satisfied that adjustments have generally been made to remove or minimise any such levels of uncertainty.

There will always be some items that emerge after the budget has been prepared. These may be the non-achievement of an MTP item or some new unexpected item. These will first be met by any compensating savings that have emerged elsewhere in the budget but, if this is not possible, from reductions in service provision or the use of revenue reserves.

The most significant potential risks to the budget are:

- higher inflation
- further reductions in income
- non-achievement of planned savings
- failure of a borrower
- an emergency (e.g. flooding)
- increased demands on services (e.g. benefits or homelessness)
- Level of retained Business Rates

**Tables at the end of this Annex show the key assumptions and the financial impact of changes over the MTP period but the figures quoted below are the potential impact on the 2014/15 budget.**

### **Inflation**

A 1% increase in pay would cost £200k

A 1% increase in general inflation (excluding pay), assuming no compensating increase in fees and charges was possible, would result in a net cost of approximately £175k.

An increase in interest rates of 1% would cost £96k.

### **Reduced Income**

A 1% loss of income from fees, rents, charges and recharges would amount to around £178k. The largest areas susceptible to variation are:

- Car Parks £1.8M
- Leisure Centres £7.5M
- Property £2.0M
- Planning and Building Control Fees £1.9M

### **Non Achievement of Planned Savings**

There is clearly no guarantee that all savings will be achieved within the timescales shown. In total the additional savings target over the current year's forecast is around £2.9M which includes significant sums relating to the new pension contribution levels and the pay review. However, it is also likely that some more of the items from the Facing the Future review will start to impact in 2014/15 and this will help counteract any difficulties with the items already included.

### **Failure of a Borrower**

The maximum permitted with one counterparty is £8M but this is only possible where £3M of the sum is held in a liquidity account with that body. Liquidity Accounts allow recovery of investments on the same working day which substantially reduces the risk. In most cases the limit is £5M which is restricted to bodies with the highest credit rating or Building Societies with more than £2 billion in assets.

### **An emergency**

Certain types of eventuality are mitigated in other ways. Many significant risks are insured against, so losses are limited to the excesses payable. The Government's Bellwin Scheme meets a large proportion, over a threshold, of the costs of any significant peacetime emergencies (e.g. severe flooding).

### **Increased demands on services**

The services most susceptible to increased demand that would have a significant revenue impact are homelessness and Council Tax Support.

### **Retained Business Rates**

Since the introduction of this new element of funding for authorities in April 2013 it has become increasingly clear that the levels that the authority will be able to retain are very difficult to forecast. Whilst there are some opportunities for estimating when new buildings will be completed once they have started it is very difficult to judge when development will

commence on allocated land even if planning permission has been granted.

It is even more difficult to estimate the results of appeals against the valuation set by the Valuation Office Agency. These appeals sometimes take years to finalise and are often backdated for a number of years, drastically adding to the volatility.

Other variations can result from property being burnt down (e.g. the public house/restaurant at Hartford Marina) or demolished.

The revenue impact is limited by the existence of a safety net which limits our loss to around £300k and a contingency has been included for half this sum.

### **Revenue Reserves**

Theoretically, though it is extremely unlikely, all of the above items could occur next year in which case it is critical that the Council has sufficient reserves to fund unavoidable additional costs pending the introduction of compensating service savings.

Reserves are forecast to be £10.0m at April 2014 and reduce to £9.1m by March 2015 in order to support revenue spending. This is still significantly above what would be considered a safe minimum level when considering the 2014/15 budget in isolation but clearly not excessive given the future uncertainties on Government financial support and the need for further significant savings.

Therefore, even if a number of unexpected additional costs emerged there would still be sufficient funding to cover the deficit for 2014/15.

### **Conclusion**

Considering all these factors, I believe that the combination of a robust budget process and our current level of reserves should give Members no concerns over the Council's financial position for 2014/15.

However, for future years, it remains critical that:

- Effective progress is made in identifying how the Unidentified Savings for future years will be achieved and where practicable these are brought on-stream as soon as possible recognising the major and increasing reliance on New Homes Bonus which may be vulnerable to change.
- That careful monitoring continues to take place recognising that there are certain key areas subject to volatility. These include income from fees and charges, homelessness, the level of housing completions that result in New Homes Bonus and the level of retained Business Rates.

**Steve Couper**  
Assistant Director  
Finance and Resources

## ASSUMPTIONS

INFLATION	for	for	for	for	for
	Apr 2014	Apr 2015	Apr 2016	Apr 2017	Apr 2018
<i>Pay award</i>	1.5%	1.5%	1.5%	2.0%	2.0%
<i>Prices</i>	2.5%	2.5%	2.5%	2.5%	2.5%
<i>electricity</i>	0.0%	-0.5%	2.4%	8.9%	31.1%
<i>gas</i>	0.0%	0.0%	2.6%	5.1%	0.0%
<i>fuel</i>	0.1%	0.5%	1.0%	1.5%	1.5%
<i>car park charges</i>				10%	
<i>planning fees</i>				10%	

The cost of performance pay is allowed for in the Risk Provision for the Pay Review and assumes an average of one increment every 2 years starting from April 2015 for those employees not at the top of their grade.

INTEREST RATES	2014/ 2015	2015/ 2016	2016/ 2017	2017/ 2018	2018/ 2019
	Temporary Borrowing	0.43%	0.43%	0.45%	0.85%
Temporary Investments	0.58%	0.58%	0.55%	0.95%	1.43%
PWLB 20 year borrowing	3.39%	3.64%	4.08%	4.25%	4.50%

## SENSITIVITY

IMPACT OF CHANGES	Impact on saving requirement				
	14/15	15/16	16/17	17/18	18/19
	£M	£M	£M	£M	£M
Pay - 1% higher award each April starting 2014	199	386	581	794	1,018
Pensions – 1% higher employers' contribution from April 2018					142
Expenditure excluding pay - 1% higher inflation each year	175	352	531	712	894
Income – 1% higher assumption	-178	-359	-540	-724	-910
Interest Rates - 1% higher	96	115	131	145	160