

# **Report to the Finance and Performance Management Committee**



**Epping Forest  
District Council**

**Date of meeting: 11 January 2006**

**Portfolio: Finance and Performance Management**

**Subject: Revised Four-Year Forecast**

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## **Recommendations/Decisions Required:**

**Members are asked to consider the revised four year forecast and the level of Council Tax increase for 2006/07 and subsequent years.**

## **Introduction**

1. On 12 December 2005 the Committee considered a report setting out the substantial increases in formula grant indicated in the provisional settlement figures. As the settlements far exceeded the amounts that had been allowed for in the previous four-year forecast, Members requested an update of the four-year forecast to consider prior to making any recommendations to Cabinet on the level of the Council Tax increase for 2006/07.

## **Previous Four-Year Forecast**

2. On 12 September 2005 the Committee considered the annual Financial Issues Paper and an updated four-year financial forecast. At that time Members attention was drawn to the high level of balances and it was suggested that deficit budgets should be planned for to allow a controlled reduction in revenue balances over the period. Members have previously aligned the balances to the Council's "Net Budget Requirement" (NBR), allowing balances to fall no lower than 25% of NBR.
3. At that time the balance of £5.488m represented just over 37% of the anticipated NBR for 2006/07 and was therefore somewhat higher than the guideline of 25%. However, the out-turn in 2004/05 had benefited significantly from salary savings and additional investment income, which cannot be guaranteed in the future.
4. The report also detailed the significant uncertainties that still existed, in particular the changes to the grant formulas. Members felt that in view of the uncertainties it was premature to set guidelines for the 2006/07 budget. However, a general indication was given that in submitting an updated Financial Issues Paper Council Tax increases of between 3% and 4% should be considered.

## **Provisional Grant Settlement**

5. As mentioned above, the 12 December paper set out in detail the changes to the formula grant system and it is unnecessary to repeat the whole of that report. Although in order to set the context of the Council's current position some of the data does need to be reproduced.

6. As the government no longer provides Assumed National Council Tax or Formula Spending Share figures direct comparisons with previous years settlements are extremely difficult. The position on comparability is made worse by the changes in responsibility and the additional spending due to changes like concessionary fares. The government have attempted to provide an indication of relative changes by re-stating the 2005/06 figures on the new basis.

	Original 2005/06 £m	Adjusted 2005/06 £m	2006/07 £m	2007/08 £m
Formula Grant	7.299	7.916	8.625	9.149
Increase £	n/a	0.617	0.709	0.524
Increase %	n/a	8.45%	9.0%	6.1%

7. The increase of 9% on the adjusted 2005/06 figure is three times the floor increase of 3%. Whilst the increase of 6.1% for 2007/08 is more than double the floor increase of 2.7%. These increases are substantially above what had been anticipated in the previous four year forecast.

	2006/07 £m	2007/08 £m
Formula Grant	8.625	9.149
Less assumed amount for concessionary fares	-0.582	-0.730
Comparable net grant	8.043	8.419
Previously forecast	7.372	7.445
Grant in excess of forecast	0.671	0.974

### Updated Four-Year Forecast

8. A revised four-year forecast has been prepared and is attached as Annexes 1 a and b. In constructing the forecast it has been necessary to make certain assumptions, these are set out below:
- CSB Growth – all of the known growth items for 2006/07 have been included at a total of £817K. For 2007/08 only growth items of £79K have currently been identified, but in order to prevent excessive levels of balances growth of £1M has been included.
  - DDF – all of the known items for the four-year period have been included and at the end of the period a balance of £1,394K is still available.
  - Grant Funding – the provisional settlement figures have been included for 2006/07 and 2007/08. It has been assumed that for 2008/09 and 2009/10 our gross grant entitlement will increase by 2%. It has also been assumed that the amount we will loose to support the floor for other authorities will reduce over the period to give net grant increases of 3.5% in 2008/09 and 2.5% in 2009/10.
  - Council Tax Increase – it has been assumed that Members will wish to keep rises in line with inflation and so increases close to 2.5% have been included. Annex 1 has an increase of 2.46% for 2006/07, which is lower than the alternatives of 3.97% or 2.94% proposed in the previous four-year forecast.
9. The inclusion of such significant growth in 2007/08 is quite a radical proposition but does need to be viewed in terms of the level of revenue balances. Even allowing for the lower Council Tax increase in 2006/07 of 2.46% the table below illustrates that reserves as a percentage of NBR will still comfortably exceed the 25% guideline.

	2006/07	2007/08	2008/09	2009/10
Net Budget Requirement	£15.805M	£16.510M	£17.011M	£17.436M
Opening Reserves	£5.919M	£6.458M	£6.249M	£6.044M
Reserves as % of NBR	37.5%	39.1%	36.7%	34.7%

10. As an increase of less than 4% is affordable, Members may like to consider an increase of between 2 and 3%. Some possible options are given below:

Band D Charge	Band D Increase		District Precept
£	£	%	£'000
131.49	0	0	6,987
134.19	2.70	2.05	7,131
134.73	3.24	2.46	7,160
135.36	3.87	2.94	7,193

### Conclusion

11. The provisional settlement for the next two years is a very favourable one. The Council was already in a strong financial position and this has now been enhanced. Through updating the four-year forecast it has been possible to demonstrate that the Council can now afford both lower Council Tax increases than had been anticipated and improvements to services.
12. With careful management and spending targeted on priority areas it should be possible to achieve improvements in key service areas. However, it is important that spending is kept under control and that an impression is not created that all growth bids will be accepted regardless of their merit.