

# **Report to the Finance and Performance Management Scrutiny Panel**

**Date of meeting: 15 January 2007**



**Portfolio:** Finance and Performance Management

**Subject:** Revised Four-Year Forecast

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## **Recommendation:**

Members are asked to consider the revised four year forecast and the level of Council Tax increase for 2007/08 and subsequent years.

## **Introduction**

1. On 11 December 2006 the Finance and Performance Management Cabinet Committee considered a report setting out the current position on the draft General Fund budget. The Committee confirmed that the budget guidelines previously set down should be adhered to:

- a) that the ceiling for CSB net expenditure be no more than £17M including net growth.
- b) that balances continue to be aligned to the Council's net budget requirement and that balances be allowed to fall no lower than 25% of the net budget requirement.
- c) that the District Council Tax be increased by no more than the rate of increase in the Retail Price Index.

2. As the first of the guidelines represents an additional constraint on the previous four-year forecast, an update of the four-year forecast should be considered prior to making any recommendations to the Overview and Scrutiny Committee or the Cabinet on the level of the Council Tax increase for 2007/08.

## **Previous Four-Year Forecast**

3. On 25 September 2006 the Finance and Performance Management Cabinet Committee considered the annual Financial Issues Paper and an updated four-year financial forecast. At that time Members attention was drawn to the impact on the budget of the waste management contractor being placed in administration earlier in the year. Some £2.33m of supplementary estimates have been approved to deal with the costs incurred during the administration, the higher level of charges from the interim contractor and enhancements to the service for weekly summertime collections. In formulating an updated four-year forecast it was necessary to consider how much of the supplementary estimates would ultimately be CSB growth. Given the assertions from the previous contractor that they had underbid, the higher costs of the interim contractor and the Council decision to retain summertime collections as part of the ongoing service, it was felt appropriate to include £1.5m as CSB growth.

4. At that time the predicted General Fund balance at 1 April 2007 of £5.328m represented just over 32% of the anticipated NBR for 2007/08 and was therefore somewhat higher than the guideline of 25%. However, the additional costs that are now likely to be incurred on waste management meant that by 1 April 2009 the predicted balance had reduced to £2.65m. This represented only 15% of the net budget requirement for 2009/10 and so highlighted the clear need for a review of services and expenditure.

5. The report also detailed the significant uncertainties that still existed, in particular the capitalisation of pension fund deficit payments. Following concerns at the Treasury about excessive capitalisations creating pressure on the Chancellor's "Golden Rule" the regulations for issuing capitalisation directions were changed. A new "Two Gate" system has been introduced, whereby applications must satisfy the previous criteria to clear gate 1 but applications will not pass gate 2 until the national economic impact has been considered in total. Confirmation has been received that the applications to capitalise the additional pension deficit payments for 2006/07 have cleared gate 1. The Department for Communities and Local Government (DCLG) will not inform authorities if they have cleared gate 2 for 2006/07 applications until 31 January 2007. If capitalisation directions are not obtained then the additional charges to revenue will be £629,000 General Fund and £295,000 HRA for 2006/07 and £680,000 General Fund and £319,000 HRA for 2007/08.

6. The other key areas of uncertainty highlighted included changes to the statutory Concessionary fares scheme and the outcome of the Lyons Review and the impact that this may have on the future financing of Local Government.

### **Draft Local Government Finance Settlement**

7. Last year as part of replacing the system of Assumed National Council Tax (ANCT) and Formula Spending Shares (FSS) with Relative Needs Formulae (RNF), the Government provided a two-year settlement. On November 28 draft figures for 2007/08 were issued and these were open to consultation until 5 January 2007. Initially it appeared that there was an increase of some £22,000 in the figures that the Council had previously been advised of. Unfortunately the DCLG later issued a correction and an apology that confirmed the draft settlement was as advised last year. The table below is repeated from last years budget papers to remind Members of the settlement:

	Original 2005/06 £m	Adjusted 2005/06 £m	2006/07 £m	2007/08 £m
Formula Grant	7.299	7.918	8.627	9.161
Increase £	n/a	0.619	0.709	0.534
Increase %	n/a	8.48%	9.0%	6.2%

8. It is also worth repeating that the increase of 6.2% is more than double the minimum floor increase of 2.7%. The restrictions on growth above the floor have been eased from 2006/07 as the Council can now retain 60.8% of the increase above the floor as opposed to the figure of 49.1% in 2006/07. This means the amount of grant lost to support the floor for other local authorities will reduce from £490,000 in 2006/07 to £189,000 for 2007/08.

### **Updated Four-Year Forecast**

9. 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 and follow the discussions held between the Finance and Performance Management Portfolio Holder, other Cabinet Members and Heads of Service:

- a. CSB Growth – growth items for 2007/08 have been included at a total of £138,000. For 2008/09 growth items of £354,000 have currently been identified. The growth of £1.5m previously mentioned for waste management has been included in the revised estimates for 2006/07, but is partly offset by an increase in income from recycling credits of £262,000.
- b. DDF – all of the known items for the four-year period have been included and at the end of the period a balance of £809,000 is still available. This is after revising the estimates for LABGI income from £200K to £500K for 2006/07 and from £0 to £200K in 2007/08. The exact amounts to be received are still uncertain as the formula has changed, but a national ceiling will be applied to cap total income from the scheme, which will lead to some authorities receiving less than the amount suggested by the pure application of the formula.
- c. Grant Funding – the provisional settlement figures have been included for 2007/08. It has been assumed that for 2008/09 and subsequent years the gross grant entitlement will increase by 2%. It has also been assumed that the amount lost to support the floor for other authorities will reduce over the period to give net grant increases of 3.5% in 2008/09, 2.5% in 2009/10 and 2.1% in 2010/11.
- d. Council Tax Increase – Members have confirmed they wish to keep rises in line with inflation and so an increase of 3.5% has been included for 2007/08. It is anticipated that growth in the retail prices index will reduce from the current level of 3.9% to 2.5% in subsequent years and so 2.5% has been used for future increases.

10. The inclusion of significant growth in CSB needs to be considered in terms of the level of revenue balances. Even allowing for the higher Council Tax increase in 2007/08 of 3.5% the table below illustrates that reserves as a percentage of NBR will fall to the guideline level by 2009/10 and will have significantly breached the guideline by 2010/11.

	2006/07	2007/08	2008/09	2009/10	2010/11
Net Budget Requirement	£15.792M	£16.659M	£17.166M	£17.596M	£18.001M
Opening Reserves	£6.456M	£5.954M	£5.633M	£4.708M	£3.439M
Reserves as % of NBR	40.9%	35.7%	32.8%	26.8%	19.1%

## Conclusion

11. The financial position is such that Members must now carefully prioritise the allocation of scarce resources. With the general fund revenue balance just short of £6.5m there is no need for short-term panic measures. However, before the end of the current forecast period a thorough review of the entire authority will be needed to ensure that priority services are provided at a sustainable level. If such a review is not conducted and substantial savings are not identified then the authority will be in breach of the current guideline on reserves by 2010/11.