

APPENDIX 1
MEDIUM TERM FINANCIAL FORECAST – DECEMBER 2010

	2011-12 £000	2012-13 £000	2013-14 £000	2014-15 £000
GRANTS				
<p><u>1. General Government Grants (RSG & NNDR) – Cuts in funding</u> The Government's Provisional Finance Settlement has announced significant reductions in local authority funding for the next two years. The projections here also assume that the Council's general grants are cut in line with national average reductions in the final 2 years of the 4 year Comprehensive Spending Review period. This equates to a cumulative 30% cash reduction over a 4 year period on an adjusted basis allowing for transfers of responsibilities and functions.</p>	1,105	1,988	2,041	2,386
<p><u>2. New Homes Bonus Scheme (estimate)</u> A New Homes Bonus scheme has been established to reward Councils that allow new homes to be built in their area. It is not yet clear how this new scheme will work in practice but a prudent allowance has been included in this forecast to reflect this initiative. This estimate will need to be updated once more information becomes available.</p>	-100	-100	-100	-100
<p><u>3. Specific Grants – Cuts in funding</u> Government specific grants are paid to individual service areas and typically have to be spent on clearly identified activities. The Spending Review announced that there would be significant cuts in these areas as well as to general government grants. However these projections assume that where cuts in funding are made to specific grants then the relevant service area will have to make a matching reduction in expenditure or find alternative funding. Consequently this forecast is based on a principle that reductions in specific grant funding are not replaced by mainstream Council funding and consequently do not affect the bottom line position.</p>	0	0	0	0

	2011-12 £000	2012-13 £000	2013-14 £000	2014-15 £000
COUNCIL TAX				
<p><u>4. Council Tax income</u> The Government has announced that it will provide funding to local authorities to enable them to freeze the Council tax level next year. This grant will be equivalent to a 2.5% council tax increase in 2011-12 or £173,000. In subsequent years it is assumed that the Council tax level increases by 2.0% per year (in line with the Government's inflation target) to ensure that the value of this income source is maintained in real terms.</p>	-173	-311	-452	-596
OTHER RESOURCES				
<p><u>5. Exhaustion of LABGI grant funding</u> In past years the Council received significant amounts of LABGI grant as a performance reward for increasing the size of the business rate base. This funding was put into a LABGI reserve and has been used to support the bottom line budget position at a rate of £0.347m per year. The Government no longer pays LABGI grant and it is expected that this reserve funding will run out part way through the 2012-13 financial year.</p>	0	136	347	347
<p><u>6. Fees, Charges and other income</u> As a result of the recession external income levels have reduced dramatically across a range of areas including planning fees, treasury management, land charges and the CRA property portfolio. It is reasonable to assume that income levels will start to recover at some point but the timing and the extent of this recovery is far from clear. For budget planning purposes it is assumed that income levels will increase by £100,000 per year from 2012-13, as the economy recovers from the recession. These are prudent estimates as it is important that the budget gap is not closed by overly optimistic future income assumptions. The projections do not include any extra income from increases in the level of charges or the introduction of new charges.</p>	0	-100	-200	-300

	2011-12 £000	2012-13 £000	2013-14 £000	2014-15 £000
<p><u>7. Potential income loss on Commercial Rents</u> The Council receives a significant income from commercial rents but there are a number of factors that may reduce these levels in the future. Consequently a reduction in income has been assumed from 2013-14 to reflect this situation. The actual income position will however depend on how successfully the Council can manage these developments and this will be a key challenge over the next few years.</p>	0	0	270	540
EMPLOYEE COSTS				
<p><u>8. Employee Pay Awards</u> For planning purposes it is assumed that there is no net increase in employee costs from pay awards over the next two years, but subsequently the level of the pay award is 2% in line with the government's inflation target.</p>	0	0	300	600
<p><u>9. Contractual Increments</u> Typically each year there will be increases in employee costs due to contractual increments paid to staff as they progress through the grade structure. The original job evaluation (JE) process that was implemented in August 2009 meant that a significant amount of staff who were previously at the top of their grade were re-graded, and staff who were previously on a fixed spinal column point were put onto a grade structure. Consequently there will be a significant increase in incremental costs in 2011-12 as a result of the ongoing impact of JE. However after this point, the effects of JE will have largely been assimilated and incremental costs will be lower.</p>	140	180	220	260

	2011-12 £000	2012-13 £000	2013-14 £000	2014-15 £000
<p><u>10. Job Evaluation Appeals</u> The main process to assess staff appeals against job evaluation scores has now been completed and a provision for the cost of the successful appeals must be built into the budget for future years</p>	144	154	154	154
<p><u>11. National Insurance Increase</u> The Government have announced that Employer NI rates will increase by 1% from April 2011, but the level at which employers start to pay NI will also increase by £21 per week. Consequently this should mean that NI costs should reduce or stay the same for low paid staff but will increase for staff on higher grades.</p>	80	80	80	80
<p><u>12. Superannuation Increases</u> A triennial actuarial review of the County superannuation fund is currently taking place and it is expected that this will lead to increases in Employer contribution rates for all member authorities. The projections allow for a 1% increase (£115,000) per year, which will take the contribution rate from the current 19% to 22% in 2013-14. However the actual increase will be dependent on the results of the actuarial review and any government decisions taken in the future on the affordability of public sector pays schemes.</p>	115	230	345	345
OTHER ISSUES				
<p><u>13. Impact of previous year's budget decisions</u> This factor reflects the impact of budget decisions that were taken in previous years but which have an additional financial impact over the next four years</p>	115	95	95	95

	2011-12 £000	2012-13 £000	2013-14 £000	2014-15 £000
<p><u>14. Contract Inflation</u> The Council's contracts typically contain provisions on how costs will be uplifted to reflect inflationary factors. Given the very difficult financial climate every effort will be made to negotiate with contractors to avoid cost increases, but in many cases this will be unavoidable.</p>	50	100	150	200
<p><u>15. Budget pressures</u> The projections include a provision for additional budget pressures. Past experience demonstrates that each year the Council will face new and unavoidable budget increases and this factor needs to be included in the financial forecasts. The scale of this factor cannot be estimated with certainty but could be required, for example, to deal with additional benefit costs arising from exempt accommodation issues or to meet new statutory duties.</p>	250	500	750	1,000
CUMULATIVE BUDGET GAP	1,726	2,952	4,000	5,011
GAP AS A PROPORTION OF THE NET BUDGET	10.5%	18.0%	24.4%	30.6%

NOTE

The forecast will need to be updated periodically as new information becomes available including, for example, how the proposed reform of the HRA subsidy system could affect the GRA, and when further details on the New Homes Bonus Scheme are issued.