

3 FINANCIAL FORECAST 2009/10 TO 2011/12

3.1 Introduction

- 3.1.1 The purpose of this Section is to produce a financial forecast for North Norfolk District Council's Revenue Account for the next three years.
- 3.1.2 The failure to provide an updated Comprehensive Spending Review to follow CSR07 means that the only provisional figure available to support this forward projection is that for Central Government Support in 2010-11. There are no provisional allocations for 2011-12 or 2012-13 and subsequently the projections beyond the immediate forward year are more fluid than has been the case in the recent past.
- 3.1.3 The financial forecast continues to be updated on an annual basis to reflect changes that occur and impact upon the Council during the period after setting the budget.

3.1 Background Information

- 3.2.1 The context within which this financial projection has been prepared is detailed within Section 2 of this Financial Strategy.

3.3. Report Format

- 3.3.1 The format for this forecast will be as follows:

- **Available Resources**
- **Council Tax**
- **Financial Forecast 2010/11 to 2012/13 – Base Budget**
- **Forecast Budget Against Resources**
- **Strategic and Service Planning – Capital and Revenue Budget Bids**
- **Value for Money / Efficiency Strategy 2010/11 to 2012/13**
- **Sensitivity Analysis**
- **Risk Assessment**

3.4. Available Resources

- 3.4.1 The Council has access to two main sources of funding. Government grant, which includes redistributed business rates (termed external funding), and the income raised through the council tax.
- 3.4.2 The Government uses the formula grant distributional system to allocate a share of the nationally available external funding to each council after deduction of the value of grants given for specific purposes. The distribution of Formula Grant is determined wholly by the Relative Needs Formulae (RNF), the Relative Resource Amount, the central allocation (an amount per head) and the floor damping scheme.
- 3.4.3 The previous chapter discussed the context in which this financial strategy is being prepared in light of the recent uncertainty of the financial climate and the remainder of the CSR 2007 period. However, to add to that uncertainty there are also possible changes to base data that the Government might seek to introduce within the distribution formula from 2011. In particular attention is drawn to the population base which is a major determinant of distribution. While nationally population is increasing

the position in North Norfolk is that the previously estimated population is higher than the current revised estimates. The change is significant enough to potentially reduce Government grant if the revised estimate of population is used.

- 3.4.4 The average Band D Council Tax across all Shire Districts (including Parishes) for 2009/10 is £191.80 (£187.00 in 2008/09). This compares to an average Band D including parishes for NNDC of £167.27 (£160.73 in 2008/09), which places the Council in the lowest quartile. This means that this Council currently has one of the lowest council tax levels in the country. On the other hand the total RNF for the Council places it firmly in the upper quartile of Districts meaning that it is assessed as having a high relative need to spend on providing services.
- 3.4.5 Table 1 shows the Council's net District Budget for 2009/10 and forecasted resources over the next three years. The external funding for 2010/11 reflects the provisional allocations made in CSR2007. External funding for the years 2011/12 and 2012/13 is reduced reflecting the pressure anticipated from public spending decisions by Central Government and the rebasing of grant distribution in terms of population. The Council Tax for the same period assumes increases of 3.8% in the first year of this strategy followed by 2.5% increases in the remaining period.

Table 1 - Total Resources available for 2009/10 to 2012/13				
	2009/10	2010/11	2011/12	2012/13
	£'000	£'000	£'000	£'000
Level of external funding (*)	8,872	9,007 (1.5%)	8,872 (-1.5%)	8739 (-1.5%)
Income from Council Tax net of Collection Fund	5,572	5,783 (3.8%)	5,928 (2.5%)	6,076 (2.5%)
Spending Guideline	14,444	14,790	14,800	14,815

* Provisional allocations for 2010/11 and projections for 2011/12 and 2012/13.

3.5 Council Tax

- 3.5.1 The level of income from Council Tax shown in Table 1 assumes a 3.8% increase in the District element for 2010/11. This would result in the District Council's element of Council Tax rising to £140.22, an increase of £5.13 in 2010/11.
- 3.5.2 Table 2 below compares levels of government support and Council Tax levels since the introduction of Council Tax in 1993/94.

Table 2 - Sources of Funding (Actual 1993/94 to 2009/10)							
	District Council Requirement (excluding parish precepts) £	Funded By:					
		Council Tax Amount £	%-age	External Support £	%-age	Council Tax £ : p	%-age Increase
1993/94	7,600,563	1,176,568	15.5	6,423,995	84.5	31.32	
1994/95	7,770,487	1,263,736	16.3	6,506,751	83.7	31.32	0.0
1995/96	7,776,140	1,372,163	17.6	6,403,977	82.4	36.18	15.5

1996/97	8,507,728	2,325,736	27.3	6,181,992	72.7	61.47	69.9
1997/98	8,919,795	2,781,533	31.2	6,138,262	68.8	71.10	15.7
1998/99	9,361,633	2,940,895	31.4	6,420,738	68.6	79.65	12.0
1999/00	9,788,679	3,137,770	32.0	6,650,909	68.0	82.80	4.0
2000/01	10,261,314	3,301,347	32.2	6,959,967	67.8	87.12	5.2
2001/02	10,767,909	3,517,543	32.7	7,250,366	67.3	91.62	5.2
2002/03	11,279,804	3,859,453	34.2	7,420,351	65.8	99.99	9.1
2003/04	11,580,691	4,115,063	35.5	7,465,628	64.5	106.65	6.7
2004/05	11,478,376	4,585,637	39.9	6,892,739	60.1	115.11	7.9
2005/06	11,856,757	4,754,841	40.1	7,101,916	59.9	118.44	2.9
2006/07	13,166,048	4,947,990	37.6	8,218,058	62.4	122.58	3.5
2007/08	13,741,784	5,114,673	37.2	8,627,111	62.8	125.64	2.5
2008/09	14,170,290	5,396,082	38.1	8,774,208	61.9	130.59	3.9
2009/10	14,443,317	5,571,764	38.6	8,871,553	61.4	135.09	3.4

3.6 Financial Forecast 2009/10 to 2011/12 – Base Budget

3.6.1 In projecting the forecast for the period of the financial strategy the starting point is the approved original base budget for 2009/10. This is then adjusted for those items for which there will be a known impact in future years in addition to inflation.

3.6.2 The adjustments to the base are taken from the most recent information provided to Members as part of the quarterly budget monitoring and also where future spending pressures and other known commitments have been identified for example annual inflationary increases.

3.6.3 Table 3 below summarises these adjustments and the impact of inflation to produce a forecasted base budget for each year. Further details of the adjustments and inflation are provided from section 3.6.4 onwards.

Table 3 – Forecast Base Budget 2010/11 to 2012/13			
	2010/11	2011/12	2012/13
	£	£	£
Base Budget	15052617	15289367	15488167
Restructure savings	-104000	-2000	0
Committed growth	64000	153000	117000
Growth – income	-45000	-60000	-95000
Interest	135000		
Inflation:			
Employee Inflation	103750	104800	105770
Contracts Inflation	83000	3000	82000
Base Budget (including inflation)	15289367	15488167	15697937

3.6.4 Interest

The receipt of interest income from investments provides a significant support to the spending plans on the General Fund. However, the recent reduction in interest rates means that the level of income from this source is significantly curtailed.

The Treasury Management strategy for the Council is to protect the principal sum invested and, as far as possible, reduce the risk of loss. The Council's already prudent approach together with the downturn in interest rates has led to a sharp reduction in investment income.

During the course of 2010/11 a number of investments are maturing and it will not be possible to reinvest these monies at a similar rate. This will serve to depress investment income still further during the period covered by this strategy. Indications of an increase in interest rates are sensitive to a number of factors including the upturn in the national economy and the Bank of England's response to the task of keeping inflation below 2%.

It is unlikely that rates will fall any further during the remainder of 2009-10 and the first part of 2010/11. The start of 2011 could see a modest recovery of base rates to 1.5% but this is sufficiently problematic to identify with any certainty at this stage. Longer term predictions suggest that by the end of the strategy period base rate could be at 3% with most commentators anticipating a slow increase in rates. However no account has been taken of possible rate rises in 2010/11 any increase in investment income in 2011/12 and 2012/13 has also been discounted because of the uncertainty about the financial and economic horizon.

3.6.5 Restructure Savings

Restructure savings continue to accrue on an annual basis. The forecast takes into account the projected savings from the restructures that have taken place in previous financial years and the end of payments being made in relation to actuarial strain.

3.6.6 Committed Growth

A number of services recognise that there is an increase in volumes which contracts require are recognised financially. In particular, for example, the growth in the number of households will mean that the cost of waste collection increases beyond the pure inflationary levels provided for in the contract. Staff increments are also included in this section.

An allowance for the costs of implementing the pay and grading review from April 2010 has already been included in the base budget. While there will be protection where salaries are reduced it will be necessary to pay increased salaries where the review indicates an increase in the annual salary is required.

3.6.7 Inflation

- **Employee Pay Inflation:** The current (2009/10) budget for employee salaries has been recalculated to reflect the latest information regarding pay increases for current financial year. In the period covered by this plan an allowance of 1% in each of the years has been used to model salary costs.

- Superannuation Inflation: The inflation figure allows for increases in superannuation charges of 0.3% in 2010/11. In addition an allowance for the impact of the tri-annual revaluation dated 31 March 2010 and implemented from 2011/12 financial year has also been included at 1.2% per annum.
- Contracts Inflation: Inflation has been provided for all service contracts according to the agreed indices for each service. Where RPI is used and this has become a negative figure no reduction has been made in the model to reflect this. The following percentage rates have been applied to the anticipated contract payments for 2010/11 in calculating these figures.

	Note	2010/11
NCS Waste and Cleansing Contracts	(a)	1.48%
NCS Grounds Maintenance, Car Park Management, NEWS Recycling and NCC Commercial Waste Disposal	(b)	0
NEWS Composting	(c)	1.52%

An explanation of the calculation method and rates used is as follows;

- (a) Uplift each year per contract formula. Changes from the start of the contract are measured each year in December for the following elements, each of which has a relative weighting – NJC Pay Award, Plant & Vehicle and Fuel Cost indices (BCIS) and RPI. In the current economic climate some of the indices are very volatile. The fuel index may fall back from the forecast figure used as the economy slows and the price of oil falls.
- (b) These contracts are increased by RPI. A consensus forecast prepared by HM Treasury from City forecasters and other institutions has been used. Where RPI has become negative it has been assumed that there will be no change in the related expenditures.
- (c) This is also a formula based uplift calculation similar to (a).

Because of the significant changes to services as a result of the procurement exercise the table above only includes the figures for 2010/11.

The impact of all of the inflation, including increases in fees and charges, is included within Table 3 above.

3.6.8 Concessionary Fares

As the impact of the new scheme works through to the General Fund it is apparent that the budget forecast for 2008/09 was in excess of the actual cost. As part of the account closure for 2008/09 it was possible to provide a reserve for Concessionary

Fare against the current claims by bus operators. Reviewing the budget for 2009/10 in the light of performance data for the previous year it would appear that there has been an increase in the number of passes issued in North Norfolk. This increase suggests that there will be more journeys and it is not considered appropriate to reduce the current financial provision during the life of this strategy.

Central Government has consulted on the possibility of a move of administration of the scheme to another tier of local government in 2011/12. This will bring a period of uncertainty in terms of Central Government funding. The control totals for the concessionary fares as part of the overall external funding are difficult to identify prior to the introduction of the national scheme in April 2008. If the proposed move of this service to the County Council does occur and the grant removed exceeds the expenditure actually incurred on the scheme this will have an adverse impact on other services within the General Fund. This strategy assumes that the current arrangements will continue in 2011/12 and 2012/13.

3.6.9 *Local Authority Business Growth Incentive (LABGI) Scheme*

The financial forecast assumes that for 2009/10, £43,605 funding will be available to NNDC under the new LABGI scheme as outlined within 2.4. No assumptions have been made for funding in subsequent years.

3.6.10 *Car Park Income*

Current budget monitoring indicates that the estimate of income will be achieved in 2009/10. Investment in the service through new machines, better management information and possibly a revised contract will provide a sound basis for differential pricing proposals in the future. For the duration of this strategy, however, no change has been anticipated in the charging arrangements.

3.6.11 *Planning and Building Control Income*

Income from property based fees and charges have been reduced to reflect the downturn being experienced in this sector. In particular development control, building control and local land charge fee income is well below the figures anticipated for 2009/10. These income figures have been rebased in the current financial year. Going forward there is little evidence currently available to suggest when there will be an upturn in these areas over the life of the strategy. A modest increase in income has been included in 2011/12 and 2012/13.

3.7 Forecast Budget against Resources

3.7.1 Following the calculation of the forecasted base budget from Table 3 it is now possible to forecast the position of the authority for the next three years, this is presented in Table 4. This position does not take account of any growth bids.

Table 4 – Comparison of Forecast Budget against Future Resources			
	2010/11 £'000	2011/12 £'000	2012/13 £'000
Base Budget (Including Inflation) <i>(from Table 3)</i>	15,289	15,488	15,697
Spending Guideline <i>(from Table 1)</i>	14,790	14,800	14,815
Spend above/(below) Guideline	499	688	882
Year-on-Year Movement		189	194

3.7.2 It is clear from the forecast in Table 4 that based on the current forecast and assumptions the Council is above its guideline spend for 2010/11 and future years. This is after assuming an increase in council tax of 2.5% in 2011/12 and 2012/13 and external support of 1.5% in 2010/11 and a reduction of 1.5% in each of the following two years.

3.8 Value for Money / Efficiency Strategy 2010/11 to 2012/13

3.8.1 The Council is committed to delivering value for money through organisational structures and processes that promote continuous improvement and secure value for money in the services provided. Included within the Council's current Corporate Plan *Changing Gear*, is an organisational development plan for the period 2008 to 2011. The organisational plan is the key to delivering best value across the organisation. The plan covers the following eight themes where improvement has been identified as being required:

- Asset management
- Procurement
- Equality and diversity
- Customer service improvement
- Development of our people
- Partnership
- Communications and branding
- Environmentally sustainable business

3.8.2 The organisational plan is a challenging agenda but one that should create efficiencies in the medium to longer term and improve the overall capacity of the Council to deliver its priorities as defined through the performance management regime.

3.8.3 The target for efficiency savings in 2010/11 is 4% of the Net Service Expenditure plus Capital Expenditure. This gives an overall target for 2010/11 of £925k. This is an unrealistic target having already delivered £1.4million efficiency savings in the last three years.

3.8.4 However, the Cabinet has recently committed to delivering a savings total of c£1million across four work streams detailed below:

Number	Work stream	Target £
1	Review management and service structures in response to the needs of the organisation moving forward and particularly in response to: <ul style="list-style-type: none"> • The continuing economic climate and recession • The community empowerment agenda • Comprehensive area assessment framework 	350,000
2	Revisit service priorities and seek an understanding from each service manager of the implications of a 3% and 6% reduction in service budget. Explore how this would impact on the Council's ability to deliver its priorities or whether such savings could be delivered through increasing income and/or efficiencies.	300,000
3	To continue to explore the possibilities that a shared service approach might bring	
4	To agree a target for savings to be delivered through the re-tendering of the waste and recycling contract, grounds maintenance contract and cleansing contracts.	350,000

Our approach therefore is to continue to identify work streams that will lead to more efficient working but where this can be achieved without significant investment and/or where there is an almost immediate return on the investment.

- 3.8.6 However in order to produce a balanced budget for 2010/11 and beyond the opportunity to create efficiency savings is limited. Whilst it is therefore clearly justifiable to use one off funding in the short term, pending the outcome of LGR, this would then be balanced by a clear strategy for delivering savings in future years for shared service arrangements.

3.9 Sensitivity Analysis

- 3.9.1 The forecast of budget against future resources as summarised in Table 4 is dependant on a number of key assumptions which are not directly within the control of the Council, the most significant of which are;

- Employee inflation
- The level of external funding (in particular years 2 and 3)
- Future assumptions on ring fenced contributions
- Current economic climate including bank base rate and investment interest rates
- General inflation.

- 3.9.2 It is not possible to make reasonable predictions in each of these areas beyond the first year of the strategy. The financial and economic landscape nationally still delivers uncertainty in the major indicators of activity. The previous period of relative growth has been replaced by recession. Budget making in such an environment is fundamentally different from previously where reductions in resources allowed

shifting priorities to be accommodated within the allocated resources. Undoubtedly the public sector is entering a period of financial pressure that it has not experienced for a long time.

However, changes in the level of external funding are likely to have the biggest impact on the Council's position. The provisional settlement for 2010/11 gives some stability for the immediate forward year but it is disappointing that there are no firm guidelines for 2011/12 or 2012/13.

3.9.3 Fluctuations in interest rate based upon the current balances available for investment of plus or minus 0.5% would result in additional or reduced income of approximately £100,000 per annum.

3.9.4 As a guide an increase or decrease in Council Tax of 1% equates to approximately £54,000 additional or reduced resources per annum.

3.10 Risk Assessment

3.10.1 The Corporate Risk Register is currently being reviewed by the Council's Performance and Risk Management Board and an updated risk register being presented to Cabinet and Audit Committee in November 2008.

3.10.2 All of the strategic risks as detailed in the register have the potential for significant impact and directly or indirectly (through loss of reputation) all of the risks have the potential for affecting the financial standing of the council and its ability to deliver its services. All the risks have been mitigated to a greater or lesser extent by the identification of management and financial controls. It is essential that these controls continue to be monitored to ensure they are applied strongly and effectively. In addition, where appropriate the Council has taken out general and specific insurances and maintains a minimum level of reserves to further mitigate the potential financial impact of the strategic risks. Further details on the reserves held by the Council are provided in chapter 6 of the document.

3.10.3 A number of the strategic risks remain at high levels and these are discussed below:

Rank	Summary Risk Description	Impact on Financial Strategy
1	Local government reorganisation or enhanced two-tier working in Norfolk is detrimental for the residents of North Norfolk in terms of the council tax increases and a loss of local decision making	The outcome and announcement from the Secretary of State on the future of Local Government for Norfolk has been postponed because of recent Judicial Reviews. Irrespective of the outcome a balanced budget will need to be set for 2010/11; however the strategy for future years will be very different depending on the results.
2	Funding allocations and / or Government priorities do not match NNDC	The Government retains the right to direct funding towards national and regional priorities so this is always a problem. A provisional grant allocation for

Rank	Summary Risk Description	Impact on Financial Strategy
	aspirations.	2010/11 has been made, however there remains uncertainty about levels of funding beyond 2010/11 and also allocations of specific grants over the next three years. The financial strategy has identified spending guidelines for the Council over the next three years. The Council (so far as resources permit) alone and in partnership must press for and seek to secure opportunities for additional funding that will help meet its needs.
3	The inability to manage coastal change – leading to economic cost and loss of reputation	Resources have been targeted to assist with coastal management in the short-term until 2009/10. Without the development of a coordinated approach regionally and nationally that includes realistic financial backing major problems are likely to arise in the medium to long-term. This is being addressed through the participation in the development of Defra's adaptation model, the Local Development Framework (LDF) and Shoreline Management Plans (SMP).
4	That partners are not committed to key partnerships	Partnership working with other public and third sector bodies has been identified as the key to release resources to move forward in a number of areas but a shared vision and sufficient commitment can be difficult to achieve as priorities vary. Flexibility on all sides is essential. The prospect of local government reorganisation may bring uncertainty regarding the entering into long-term partnership commitments. However, it must be recognised that the Council will not be able to progress many of its aspirations for North Norfolk without strong partnerships.
5	If the business process review and customer service integration project is not adequately supported, there is a risk that opportunities for better services or efficiency savings are missed.	During 2007 the priorities of the BPR and CSI project were reviewed in light of the impact that LGR may have on the delivery of the project. Whilst there is still the emphasis on improving the service to the public delivery of the cashable savings, most of which were to be delivered from the implementation of electronic document management system, are no longer anticipated as planned.
7	A lack of clear policies and corporate focus coupled with an inability to secure funding leads to the local economy failing	Partnership working is being developed but available funding is limited and often related to national and regional rather than local priorities. The recession summit and the work by NNDC with its partners in Economic Development are seeking to

Rank	Summary Risk Description	Impact on Financial Strategy
	to develop and continuing to under-perform.	give a clear guide to local business.

3.10.4 The following significant financial risks are still evident and are applicable to both this strategy and the ongoing budget and financial planning process:

- **Economic climate** – the Council continues to rely on a number of income streams such as car park income, investment income, planning, building control and land charge fee income which are affected by the general economic health of the country. The deterioration in these areas as a result of the economic slowdown has created significant pressure in financial and planning terms for the Council over the life of this strategy. These areas will continue to be monitored closely.
- **Waste Collection and Housing Benefits** – these two large services account for a significant proportion of the Council's overall budget and income is volatile dependant upon performance levels influenced by both internal and external factors. Expenditure within these services and income streams continue to be closely monitored.
- **Large Scale Voluntary Stock Transfer (LSVT)** – following the transfer of the housing stock in February 2006 the Council gave a number of warranties and indemnities to the Housing Trust and its lender including, for example, risks associated with level of arrears, pension scheme, disclosures relating to property including environmental issues. The risk of any claim against any of these has been considered, in some cases the risks have been reduced by bonds and insurance, namely the pension bond and proposed environmental warranty insurance. Beyond this there is still a risk that claims could be made against the Council. To mitigate the financial impact of these further risks the Council holds an earmarked reserve of £400,000.
- **Efficiency Agenda** – failure to achieve cash-releasing efficiencies will mean that resources are not available to meet current service priorities even before considering future budget growth bids. It is essential that the achievement of the efficiency agenda continues to be regularly and thoroughly monitored. The Council seeks to secure this through the work of the Performance and Risk Management Board and as part of its regular budget monitoring process.

3.11 Recommendations

3.11.1 It is recommended that Members note the financial forecast for the period 2010/11 to 2012/13;