REPORT TO:	**FINANCE AND MANAGEMENT COMMITTEE**	**AGENDA ITEM: 8**
DATE OF MEETING:	**21st FEBRUARY 2013**	**CATEGORY: RECOMMENDED**
REPORT FROM:	**CHIEF EXECUTIVE OFFICER**	**OPEN**
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SUBJECT:	**FINAL BUDGET PROPOSALS 2013/14 and FINANCIAL PLAN to 2018**	**REF:**
WARD(S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: FM 08**

1.0 Recommendations

1.1 That a Council Tax Level and Band D equivalent rate for 2013/14 is recommended to Council on 4th March 2013.

1.2 That estimated net General Fund Revenue Expenditure totalling £11,339,301 for 2012/13 (revised) and £11,392,184 for 2013/14 is recommended to Council on 4th March 2013.

1.3 That the Medium-term Financial Plan to 2018 on the Council's General Fund Revenue Account as detailed in **Appendix 1** is approved.

1.4 That the financial projection on the Housing Revenue Account (HRA) to 2024 as detailed in **Appendix 2** is approved.

1.5 That the 5-year capital investment and financing plan to 2018 as detailed in **Appendix 3** is approved.

1.6 That the Councils estimated National Non-Domestic Rate Return (NNDR 1) for 2013/14 as set out in **Appendix 4** is noted.

1.7 That reports on options for delivering efficiency savings of £300,000 per year are reported to the Committee in March and April 2013.

1.8 That the report of the Council's Section 151 (Chief Finance) Officer under Section 25 of the Local Government Act 2003 is noted.

2.0 Purpose of the Report

2.1 To detail the Council's final budget proposals for 2013/14 and medium term financial projections on its main revenue and capital accounts. This includes an assessment of the overall budget and level of reserves as required by the Local Government Act 2003. The proposals will form the basis of setting the Council Tax for 2013/14 by Council on 4th March 2013.

2.2 The Council's overall proposed base budget for 2013/14 and projected medium-term financial position was reported in detail to the Committee on 17th January 2013 (details are available at: http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1530/Committee/278/Default.aspx

2.3 This report does not repeat those details but firms up the position following a period of scrutiny and consultation. The remaining issue outstanding is the level of Council Tax for 2013/14 and this is detailed within the report.

2.4 The report also provides an overview of the Housing Revenue Account and the 10-year financial projection that was approved by the Housing and Community Services Committee on 7th February 2012. This included the rent increase for 2013/14.

2.5 The report is divided into the following sections.

- Section 3: General Fund Revenue Account
- Section 4: Housing Revenue Account
- Section 5: Capital Investment
- Section 6: Council Tax
- Section 7: Report of the Chief Finance Officer under Section 25 of the Local Government Act 2003

3.0 General Fund Revenue Account

3.1 As reported in January, the Council's base budget and Medium Term Financial Plan (MTFP) was reviewed ahead of 2013/14. This identified additional cost pressures and reducing income, although further budget savings were also approved.

3.2 Following the Government's Autumn Statement in October 2012 and the subsequent financial settlement for local councils, the updated medium term position showed a weakening situation compared to that reported in October 2012.

3.3 The updated medium term projection is detailed in **Appendix 1** and summarised in the following table.

Year	Budget Deficit	Balance of Reserves
Base Budget 2012/13	£117,139	£2,537,798
Revised 2012/13	£24,974	£3,537,222
Base Budget 2013/14	£109,357	£3,107,865
Projection 2014/15	£355,346	£2,662,519
Projection 2015/16	£730,595	£1,786,924
Projection 2016/17	£817,157	£699,767
Projection 2017/18	£1,254,298	-£574,531

3.4 The level of projected reserves shows a sustainable position until 2015/16 (compared to the minimum target of £1m). However, an increasing budget deficit in the meantime reduces current reserves quite significantly, without any corrective action being taken.

3.5 The table below shows how the overall position changed between the base position in October 2012, to that following the base budget review and financial settlement.

Note – Amounts are cumulative over 5-years

Projected Reserve Balance 2017/18 (as at October 2012)	£2,331,398
Overall reduction in Government Grant	-£2,020,206
Reduction in Council Tax Income (assuming a freeze in 2013/14)	-£563,850
No Surpluses declared on the Collection Fund	-£83,123
Increase in Net Spending (following base budget review)	-£238,750
Estimated Reserve Balance (updated) 2017/18	**-£574,531**

3.6 The decreases in the above table represent the cumulative effect over the 5 year financial planning period. The effect of the decreases in Government Grant and Council Tax income (<u>if a council tax freeze is approved for 2013/14</u>) reduces projected resources by approximately £2.9m over 5 years.

3.7 Consequently, this creates an increasing budget deficit which is not sustainable beyond 2013/14 without corrective action being taken. Even allowing for a margin of error, the medium to longer term financial position is not sustainable

3.8 As previously reported the current level of general reserves is healthy and well above the minimum contingency level of £1m approved in the Financial Strategy.

3.9 They could act as a buffer for 2013/14 and possibly 2014/15, but corrective action would be required in the meantime to prevent a more critical issue accruing within this period.

3.10 Consequently, in order for a sustainable position to be achieved in the medium term and to maintain a minimum level of balances by 2017/18, on-going budget savings of **£300,000 per year from 2013/14** have been approved.

3.11 However, this may not completely meet the longer term budget deficit and additional savings may need to be made over the life of the MTFP; this will be kept under review.

Main Assumptions

3.12 Prudently, the Budget continues to make provision for some growth and inflation. In accordance with current policy, this “contingency” will be maintained centrally and only allocated once any additional costs are known.

Net Spending

3.13 Following the base budget review, net expenditure on services is projected to increase by £238,750 over the 5-year planning period; the increase is summarised in the following table.

Reductions in Projected Income	£895,000
Cost Pressures	£913,750
Budget savings	-£1,055,000
Inflation Contingency	-£515,000
	£238,750

3.14 These figures are cumulative over the 5 years to 2017/18 and follow the review of base budgets by policy committees. The main decreases in income continue to be in planning and land charges, together with trade waste – the previous MTFP had anticipated an increase due to growth.

3.15 Given the continuing economic situation, growth continues to be limited and income projections have been scaled back accordingly. In addition, grants and contributions for housing benefits and highways maintenance (to be confirmed) will fall in 2013/14, with on-going implications.

3.16 The main cost pressures are in housing benefit payments, together with repairs and maintenance liabilities on property, transport and plant.

3.17 However, the level of budget savings identified together with the knock on effect to the inflation contingency, have helped to significantly offset the losses elsewhere.

Government Grant

3.18 The figures reported in January have been confirmed and received parliamentary approval. These are shown in Appendix 1. The Government did allocate a further sum of £8.5m nationally for rural authorities in the form of a one-off efficiency grant for 2013/14.

3.19 As reported in January, the allocation of revenue support grant was amended for 2013/14 to reflect the additional cost of providing services in rural areas. This additional grant was awarded to “super sparse” areas as classed by the Office for National Statistics.

3.20 South Derbyshire did not qualify. Although it is classed as a significant rural area with over 40% of the population living in rural areas, the amount of people living in isolated hamlets and settlements falls below the qualification point.

3.21 The largest reduction in projected resources is overall government funding. The decrease is not significant in 2013/14, but additional reductions are already planned for 2014/15 as set out in the Government’s Autumn Statement. The effects have been built into the MTFP.

3.22 The projections for 2015/16 onwards are based on moderate levels of growth in the Council’s business and residential tax, together with indicative control totals for local government. The MTFP shows an overall reduction in resources for the period 2013/14 to 2017/18 of **15.5%** (£1m) compared to that received in 2012/13.

Retained Business Rates

3.23 As reported in January, a greater proportion of the Council’s funding from 2013/14 will be generated directly through business rates. This includes maintaining a proportion of future growth in the business base, but also a greater proportion of any losses will be borne locally and not transferred to the National Pool.

3.24 The Council has provisionally been set a baseline target, although the actual amount of business rates will depend on actual transactions during the year.

3.25 The Council has now been required to submit estimated figures to the Government through an annual return (known as NNDR 1). This is detailed in **Appendix 4**.

3.26 It shows that the Council’s estimated rates retention (before the Tariff payment) is £8,292,031. This is higher than the figure used by the Government in the provisional settlement of £8,172, 603.

3.27 The difference is mainly due to the estimated losses of collection being lower due to the number of write-offs in 2012/13. This is subject to a separate report elsewhere on the Agenda.

3.28 The NNDR 1 shows the transactions that will ultimately affect the actual amount retained. Besides the gross yield, which can vary depending on growth or otherwise in businesses, other factors will impact as follows:

- Discretionary and top up rate relief provided to charities, small businesses and sports clubs, etc.
- Costs of collection and losses through non-collection
- The effect of appeals
  (NOTE: The effect of any transitional relief does not impact – this is borne by the Government)

3.29 The amounts on NNDR1 are effectively baselines on which the Council's start-up funding in the new system is derived. It allows a provision (or budget) for non-collection and for continuing rate relief. Therefore, any variations from these base figures will affect the amount retained.

3.30 If the out-turn is at the estimated level of £8.29m (as per NNDR 1) then additional resources will be retained locally compared to the provisional settlement in 2013/14.

Spending Review 2013

3.31 As announced in the Autumn Statement of October 2012, the Government will review and set new control totals for 2015/16 to 2017/18 as part of a comprehensive review of public finances. It has been indicated that further reductions will follow.

3.32 As a growth area, the Council is likely to be better placed in the new system for financing local government compared to many shire districts. However, reductions in national resources are likely to lead to the Council losing resources overall. This has been assumed in the MTFP.

Other Changes

3.33 Other recent changes and grant notifications will have an impact to some extent on the Base Budget and MTFP. These are detailed in the following sections.

Dry Recyclables (Kerbside Collection) Service

3.34 Enhancements to the service from June 2013 were approved by the Committee in December 2012. Additional costs will be financed by savings in existing budgets and the growth contingency. There is a neutral effect overall on net expenditure.

Court Costs

3.35 In January, the Committee approved an increase in the fee rechargeable for court summonses involving unpaid council tax and business rates. It is estimated that this will generate additional income of around £35,000. This has not been reflected in the base budget at this stage.

Local Plan

3.36 Current estimates indicate that this could cost up to £165,000 in 2013/14, including the cost of preparation (£45,000) and public examination of the Core Strategy itself (£120,000). Depending on the outcome, a further £100,000 could be required in 2014/15 for a public enquiry.

3.37 Amounts of £76,000 and £22,500 have previously been set-aside in an earmarked reserve towards meeting these costs. In addition, it is anticipated that an under spend on Planning Services in 2012/13 of £45,000 can also be used as a contribution towards costs.

3.38 However, this will still leave a potential shortfall in excess of £100,000. This will be kept under review during 2013/14, but a further contribution from general reserves may be required to make up any shortfall.

Additional New Homes Bonus (NHB)

3.39 The Government have provisionally allocated further sums for the NHB for 2013/14, of which £18,688 will be allocated to South Derbyshire. This will be confirmed later in the year, including whether it will remain in the base budget.

Grants for Discretionary Housing Payments and New Burdens

3.40 The Council has received an allocation of £102,000 for 2013/14 for providing support to people on benefit. Its main purpose is to prevent homelessness. This is a substantial increase in previous years where allocations have been around £10,000 and included as part of housing benefit subsidy.

3.41 There are criteria on how the grant should be used. A more detailed report and proposed policy will be reported to the Committee in March.

3.42 In addition, sums of £49,000 (2013/14) and £71,000 (2014/15) have been received to implement the new Local Council Tax Support Scheme, together with wider benefit reform. These amounts are in addition to around £95,000 received in 2012/13.

3.43 The amounts have been used to pay for IT system changes and to employ additional temporary staff to implement the changes between January and May 2014.

3.44 The grants for 2013/14 and 2014/15 will be set-aside pending further system amendments for costs associated with the transition to Universal Credit – these have still to be determined.

Community Right to Challenge and Community Right to Bid

3.45 Smaller amounts of £16,000 will be awarded in 2013/14 and 2015/16 to deal with any costs arising from these issues, including compensation costs associated with the right to bid for community assets. These amounts are in addition to those received in 2012/13 of £13,000.

Council Tax Support Scheme

3.46 Following Council approval on 24th January 2013, an application has been made to the Government for transitional grant to finance the Council's local scheme in 2013/14. A decision will be made in March.

Council Tax

3.47 The MTFP continues to assume a year on year increase in Council Tax of 2.5% from 2014/15. The Government have once again offered incentives for councils to freeze their Council Tax for 2013/14 and the consequences of this have been included in the MTFP.

Summary Position

3.48 Overall, the medium-term financial position has weakened and this could be affected further following the 2013 Comprehensive Spending Review. The Council's current level of general reserves is healthy and can be used as a buffer; ultimately however, the increasing budget deficit needs to be addressed. The earlier corrective action is taken, the better the longer term position becomes and a sustainable position can be maintained.

3.49 It is important that the Council maintains financial resilience ahead of the 2013 Spending Review and plans remedial action accordingly.

3.50 Although the new system of financing local government should benefit the Council as a growth area and offers opportunities, there could be greater risks; future government allocations will not be based on a national grant that is certain but will be based on local growth, which can fluctuate and is more volatile, especially for Business Rates.

4.0 Housing Revenue Account (HRA)

4.1 This was considered in detail by the Housing and Community Services Committee on 7th February.
http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1536/Committee/281/Default.aspx

4.2 This included details of the proposed rent increase for 2013/14 under the Government's National Rent Setting Policy.

4.3 As previously reported, 2012/13 is the first year under the self-financing framework. This was implemented following the take-on of debt, together with a business and financial plan which is now being progressed.

4.4 The HRA's base budget and 10-year financial projection is detailed in **Appendix 2**. This shows a summary of each main income and expenditure head within the HRA for 2012/13 to 2023/24, together with the yearly surplus/deficit and balance on the HRA's general reserve.

4.5 This also shows how future surpluses will be built up to repay debt in accordance with the Council's Treasury Management Strategy.

Summary

4.6 The longer-term projection shows that the HRA continues to be sustainable and can deliver the required capital investment in the stock (as planned) and make the necessary surpluses in future years to repay debt – also as originally planned.

4.7 Compared to 2012/13, there is a much improved position over the longer term planning period (subject to future rent increases). This is mainly due to additional rental income as void properties are relet at Formula Rent, in accordance with the approved policy introduced in 2011/12.

4.8 In addition, there is a higher increase in rents in 2013/14 in accordance with national rent convergence. The average increase approved for 2013/14 was 5.6% (£3.93 per week).

4.9 This increases the base rental amount, and therefore, has an on-going and cumulative effect over the financial planning period.

4.10 Interest costs are also expected to be lower due to the average interest rate for debt take-on being lower than anticipated. The effect of this was reported to the Committee in June 2012 and has now been built into the projection.

4.11 Furthermore, the HRA starting position under self-financing was much better due to the overall under spend on the HRA in 2011/12. This increased the opening reserve balance on 1st April 2012 by approximately £458,000.

HRA General Reserve

4.12 In addition to the higher opening balance, the additional base rent income and other changes, show that the Reserve will increase from just over £2.4m in 2012/13 to approximately £3m by 2016/17.

4.13 This level of £3m is maintained over the remainder of the 10-year financial period as the HRA moves into surplus following the initial capital investment programme. As originally planned, future surpluses after 2016/17 will be set-aside to repay debt for when it matures.

4.14 The balance of £3m is in excess of the minimum level of £1m approved in the Council's Financial Strategy for the HRA. On a straight line basis, this equates to £200,000 per year (£2m) of additional resources over the 10-year planning period.

4.15 It is considered that proposed spending budgets are realistic but prudent and allow for inflation. The debt costs are sustainable and allow the planned repayment of debt. In addition, medium term interest costs could reduce further if interest rates remain historically low, although this cannot be guaranteed and budgeted for at this stage.

4.16 The most significant variable continues to be rent, where a relatively low change in percentage terms can have a significant impact in cash terms, particularly when projected over 10-years.

Risks and the Use of Additional Resources

4.17 With projected reserves now expected to be much higher over the medium term, the HRA has several options as set out in the following table. These were considered by the Housing and Community Services Committee.

Options	Benefits	Risks
Set lower rent increases and delay rent convergence	• Lessens the potential for larger increases • Spreads the cost for individual tenants	• Constraining the main revenue source • Reducing the income base in the short term when resources are required in the longer-term • Potential for inconsistent rents across the stock • Government could intervene to ensure rent convergence in a timely manner – this could disproportionately increase the cost to tenants in one year •
Set-aside and use resources for New Build or additional capital investment	• Would supplement other capital receipts and avoid more costly methods of financing New Build • Resources are maintained in the meantime and not immediately used	• One-off financing method, once resources are spent they cannot easily be replenished
Take advantage of borrowing headroom	• Additional debt costs are affordable • Interest rates still very low	• Additional borrowing could be costly longer term if financial position changes
Use resources for debt management - set-aside to accelerate the repayment of debt	• Prudent approach to financial management • Would reduce interest costs in the longer term	• Need to invest resources until debt matures – current investment returns very low • Repaying debt early could incur a premium, although interest rates have reduced and a discount may be available

Set-aside as a separate contingency	• Prudent approach to financial management	• Could be challenged for holding onto resources unnecessarily
Recharge a proportion of General Fund Housing costs to the HRA	• Lessens pressure on General Fund services	• Would need to adhere to accounting regulations associated with the HRA ring-fence

4.18 A report elsewhere on this Agenda, is recommending an investment in the staffing structure in Housing with a cost of approximately £75,000 per year.

4.19 Furthermore, it has also been proposed that due to the recent and planned capital investment in the housing stock, that the day to day responsive repairs budget is reduced by £100,000 per year. This also reflects spending profiles in recent years.

4.20 The reduction of £100,000 will reduce estimated spend on day to day repairs and maintenance by approximately £3.1m in 2013/14.

5.0 <u>Capital Investment</u>

5.1 The current programme remains unchanged from that approved in July 2012. The main areas of spend are on council housing investment and the improvement of leisure and community facilities.

5.2 A substantial part of the investment programme is being financed from external sources, together with the Council's remaining capital receipts and borrowing for housing under the self-financing framework.

5.3 The full programme along with financing is detailed in **Appendix 3**. The relevant Prudential Indicators for the capital programme are detailed in the Treasury Management Strategy which is a separate item on this Committee Agenda.

5.4 Additional external funding has recently been secured and this will be added to the investment programme in due course. The projects are:

- Aiming High Funding for Rosliston Forestry Centre - £87,000
- Eureka Park Heritage Funding - £547,000 (total spend £860,000)
- On-going County Council funding for Disabled Facility Grants of £62,000 per year for the 3 years 2013/14 to 2015/16.

Capital Receipts

5.5 With the implementation of the self-financing framework, Council policy is to reinvest all receipts (after the 75% pooling payment to Government) from the sale of council houses into the housing stock.

5.6 In addition, the Council entered into an agreement with the Government to enable it to retain additional receipts generated above a target level, i.e. 1-4-1 receipts to be used on New Build.

5.7 As highlighted to the Committee in quarterly budget monitoring reports, a pot of receipts is already beginning to accumulate, alongside retained amounts for general use and also debt repayment. A separate reserve will need to be set-up following the budget out-turn for 2012/13.

Land Sales

5.8 Besides council house sales, the HRA could also retain all receipts from any sales of housing land (normally 50% is pooled). An outline strategy to meet Government regulations for retaining and reinvesting all proceeds was approved by the Committee in June 2012.

General Fund Receipts

5.9 No receipts are currently anticipated in 2012/13, although the depot redevelopment project is on-going and will eventually generate a capital receipt for reinvestment in other non-housing projects, after allowing an amount for on-going vehicle replacements, if required.

5.10 This is because the General Fund investment programme assumes that receipts of £50,000 per year will continue to be generated to finance on-going capital asset expenditure. It is anticipated that these will accrue from smaller disposals of land and granting of easements, etc.

5.11 If these amounts are not generated, then a larger receipt would compensate. As a contingency, an amount has been earmarked against General Fund Reserves (as shown in **Appendix 1**) should no receipts be generated.

6.0 <u>Council Tax</u>

6.1 The MTFP assumes for planning purposes that council tax increases by 2.5% each year, 2014/15 to 2017/18. This is in addition to a growth in the tax base of 1% per year.

6.2 As part of their financial settlement, the Government has provided an incentive for local authorities to again freeze their Council Tax for 2013/14.

Council Tax Freeze (Specific) Grant

6.3 Where an authority freezes the Council Tax rate for 2013/14, i.e. sets a nil increase, a specific grant will be paid to effectively reimburse the resources lost, to the equivalent of a 1% increase, payable for 2 years – 2013/14 and 2014/15.

6.4 **This has been reflected in the latest MTFP, but clearly is subject to a recommendation from this Committee to Full Council**.

6.5 This has had the effect of reducing income compared to that budgeted, as the base income level is reduced by freezing the tax rate compared to a 2.5% increase originally planned for 2013/14.

6.6 Although the Grant reimburses the MTFP for 2013/14 and 2014/15 up to 1%, this is below the 2.5% planned increase. As previously reported, this reduced resources in the MTFP by **£563,850** to 2017/18 (net of the specific grant).

6.7 If Council Tax is frozen for 2013/14, this will maintain a Band D rate of Council Tax of £150.25.

Government Cap

6.8 The Government have powers under the Localism Act 2011 to cap "excessive" increases in Council Tax in any year. This cap has been set at 2% for 2013/14.

6.9 The Council can choose to set any level of council tax, but anything in excess of a 2% increase for 2013/14 would need to be subject to a local referendum.

7.0 <u>Section 25 Report (under the Local Government Act 2003)</u>

7.1 The Council's Section 151 (Chief Finance) Officer is required to provide an overall opinion on the robustness of the estimates included in budgets and the adequacy of Council reserves. The commentary is set out in the sections that follow.

Comments of the Chief Finance Officer

7.2 This report and that considered on 17th January 2012, highlights the risks and uncertainties surrounding the Council's financial plans and in particular, future Government grant levels and the continuing effects of the economic situation.

7.3 It is considered that estimates of expenditure are prudent in that they provide for inflation and other known variations, together with provisions that recognise potential cost pressures due to the Growth of the District. The Budget for 2013/14 and forward projections are based on the most up-to-date economic forecasts for inflation and interest rates, etc.

7.4 In addition, a realistic but prudent view has been taken regarding projected income levels from fees, charges and short-term investments. This includes the likely effects of future funding in the form of Retained Business Rates and the New Homes Bonus.

7.5 The compilation of detailed budgets has been undertaken in conjunction with service managers, including wherever possible, a zero based approach for 2013/14. The Council has established performance and budget monitoring arrangements in place to help ensure that Council finances are monitored effectively. This includes a quarterly report to this Committee.

7.6 The Council's Financial Strategy directs the Council to plan its spending over a 5-year rolling period for the General Fund and 10 years for the Housing Revenue Account. This provides an indication of the sustainability of spending plans and allows sufficient time in which remedial action can be implemented to address any issues in a planned and timely manner.

7.7 The following table shows the projected level of revenue reserves over this planning period, i.e. 2013 to 2018.

Projected Level of Revenue Reserves

FUND	MARCH 2013 £'000	MARCH 2014 £'000	MARCH 2015 £'000	MARCH 2016 £'000	MARCH 2017 £'000	MARCH 2018 £'000
General Fund Reserves	3,537	3,108	2,663	1,787	700	-575
Housing Revenue Account	2,416	2,297	2,371	2,696	3,026	3,026
Other Earmarked Reserves	3,345	3,449	2,597	2,277	1,877	1,367

7.8 The Council, based on the recommendation of the Chief Finance Officer, has approved to set a minimum level of General Reserves of £1m on both the General Fund and Housing Revenue Accounts.

General Fund

7.9 The previous table shows that the level of reserves on the General Fund is currently healthy compared to the minimum target of £1m. Over the MTFP, reserves will be drawn down to finance the budget deficit in the short term and to meet other costs as follows:

Service/Cost	Amount £'000	Comment
Pay and Grading Review	420	One-off transitional protection costs
Pay and Grading Review	130	On-going costs following implementation
Waste Collection - Growth	100	On-going costs from 2014/15
District Election	125	One-off in May 2015
Land Charges	100	Refund of Property Searches
Vehicle Replacements	250	One-off in 2016/17 pending capital receipts

7.10 The MTFP shows that the Council will need to generate further budget savings on the General Fund in order to maintain a sustainable financial position. Although the level of balances allows on-going spending to be financed in the short-term, the updated projection shows an increasing budget deficit over the planning period with reserves falling quite rapidly in the medium term.

7.11 The fairly healthy position in 2012/13, allows a period to enable the financial challenge to be addressed in a planned and timely fashion. However, the longer the time taken to implement corrective action, the greater the challenge will inevitably become.

7.12 Income projections for planning fees, etc. have once again been scaled back, but as a growth area, there is an expectation that this could improve the situation in the future. However, this cannot be guaranteed and budgeted for in the current economic climate.

7.13 Future projections for funding in the new Business Rates Retention System, have taken into account the latest forecasts for national control totals. Even with anticipated increases in New Homes Bonus and business rates income, overall funding is expected to reduce until 2017/18 as the Government pursues its own fiscal strategy. The outcome of CSR 2013 may impact further.

7.14 Target budget savings of £300,000 per year from 2013/14 have therefore been recommended and accepted.

7.15 The Council does have a history of under spending on its General Fund. This is reviewed each year and budgets adjusted accordingly. However, future under spends are not guaranteed and therefore, cannot be relied upon.

HRA

7.16 The overall financial situation for the HRA continues to be much more positive. If the financial plan regarding debt management and repayment, together with projected rent increases is executed, then the HRA will continue to generate sufficient resources for on-going investment.

7.17 The current general HRA reserve will be utilised over the next 4 years. However, it is still projected to be around £3m by 2017 where after, the HRA moves into surplus to generate funds for debt repayment.

7.18 This higher reserve balance potentially provides opportunities to utilise additional funds as set out earlier in the report (Section 4).

Earmarked Reserves

7.19 The Council also maintains several reserves that are used to meet one-off/known commitments or to defray expenditure over a number of years, for example, ICT upgrades, vehicle replacements and grounds maintenance from Section 106 contributions.

7.20 It is considered that current reserves will remain sufficient overall to meet commitments over the life of the current MTFP. Reserves held to finance on-going community and sports development spending, will need to be kept under careful review if external and partnership contributions reduce.

Risk Analysis

7.21 The financing of local government is entering a period of substantial change. The following table summarises the key risks and issues identified and assesses the potential impact upon the Council's reserves, as projected in the updated MTFP.

Factor	Issues	Mitigation	Effect on Reserves
Collection Fund Balance	• Introduction of LCTSS and BRRS reduces collection rates. • Demand for Council Tax Support increases when resources are fixed. • Local businesses disappear which reduces rating income. • Empty properties increase reducing Council Tax income and New Homes Bonus	• In built surplus in the Collection Fund. • Local growth is continuing and even at a moderate pace is beneficial. • Benefit protection being extended for claimants entering work which should reduce longer term cost. • Additional Council Tax now liable on empty properties which will increase income and incentivise occupation.	**Medium** Only 12% of the Balance is transferred to the Council's General Fund. In addition, effect is not immediate and costs can be spread.

Growth	• Now a key factor in influencing future levels of grant under the new financial system for councils. • Affects Council Tax income and other income streams such as planning.	• The MTFP projects growth at 0.75% per year for Business Rates and 1% for the Council Tax Base – these rates are considered prudent based on recent years. • Income budgets for planning, land charges, etc. forecast no increase on revised base level.	**High** This could affect reserves either way. Growth will be much more of a determining factor for the Council's income - and expenditure – and is subject to external factors. This will directly impact on the General Fund.
CSR 2013	• Overall funding for shire district councils is reduced further.	• The MTFP forecasts further reductions but this could change.	**High** If further reductions are made this will have consequences for the longer term financial position.
Budget Savings	• These need to be made and sustained over the medium-term – they are delayed beyond 2013/14.	• Current level of reserves allows planned action to be taken. • Continuing efficiency and transformation programme in place.	**High** Directly impacts on the General Fund and if action is delayed, this will affect the MTFP further. However, this is an issue under the Council's control.
Budget Overspend	• Unexpected costs and there are on-going cost pressures as identified in the report.	• Current level of reserves is healthy and MTFP allows contingencies for inflation and growth, etc. • The base budget has been scrutinised and monitoring arrangements in place allow early identification of issues.	**Medium**
General Economic Conditions	• Higher price increases on key costs such as fuel and utilities. • Interest rates affect investment returns and debt payments.	• Central inflation contingency for price increases. • The General Fund is currently "debt free" and not subject to movement in interest rates. • Sufficient balances allow "internal borrowing" if required. • Budgeted income from short-term investments is low and insignificant now in the Base Budget.	**Low**

Consultation and Provision of Information

7.22 The information and broad budget proposals, together with details on where the Council spends its money, have been presented across the District. Specifically, this has been undertaken via:

- Local Area Forums
- Consultation with the Community and Voluntary Sector, including a Special Finance Committee on 28th January 2013.
- Meetings with members of the local business community

7.23 In addition, the proposals have been subject to the Council's scrutiny process. A separate report by the Overview and Scrutiny Committee is included elsewhere on the Agenda.

8.0 <u>Financial Implications</u>

8.1 As detailed in the report.

9.0 <u>Corporate Implications</u>

9.1 There are no direct legal or employment implications apart from any considered in the report.

10.0 <u>Community Implications</u>

10.1 The proposed budgets and spending, provides the financial resources to enable all of the on-going services and Council priorities to be delivered to the local community.

11.0 <u>Background Papers</u>

11.1 The Government's Financial Settlement for 2013/14, available at:

http://www.local.odpm.gov.uk/finance/1314/settle.htm