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| **REPORT TO:** | **FINANCE AND MANAGEMENT COMMITTEE SPECIAL - BUDGET** | **AGENDA ITEM: 8** |
| **DATE OF MEETING:** | **14th JANUARY 2010** | **CATEGORY: RECOMMENDED** |
| **REPORT FROM:** | **DIRECTOR OF CORPORATE SERVICES** | **OPEN** |
| **MEMBERS' CONTACT POINT:** | **KEVIN STACKHOUSE (595811)** | **DOC:** u/ks/budget round 201011/consolidated budget proposals Jan 10 |
| **SUBJECT:** | **CONSOLIDATED BUDGET PROPOSALS 2010/11 and FINANCIAL PLAN TO 2015** | **REF:** |
| **WARD (S) AFFECTED:** | **ALL** | **TERMS OF REFERENCE: FM 08** |

## 1.0 Recommendations

1.1 That the estimates of revenue income and expenditure for 2010/11 for the General Fund are considered and a level of income and expenditure approved.

1.2 That the Council Tax Base for 2010/11 of 31,144.4 as detailed in **Appendix 2** is approved.

1.3 That a surplus of £665,000 as detailed in **Appendix 3** be declared on the Collection Fund for 2009/2010.

1.4 That the updated 5-year financial projection on the General Fund to 2015 as detailed in **Appendix 1** including associated assumptions and risks as set out in the report be approved.

1.5 That the "Planning Reserve" is held at this stage to provide additional resources against the uncertainty and risks associated with planning, subject to the overall financial position during 2010/11.

1.6 That on-going efficiency savings of **£375,000** are in place by **October 2010** and progress is reported to the Committee on a regular basis during the coming year.

1.7 That the updated capital investment programme and available financing to 2015 (as detailed in **Appendix 4**) is considered and any changes approved.

1.8 That no contributions are made to Disabled Facility Grants after 2009/10 pending the receipt of further capital resources.

1.9 That the remaining amount in the Housing Capital Receipts Reserve of £370,000 is set-aside to fund outstanding covenant repayments relating to Council Houses pending the receipt of further capital resources.

1.10 That priority is given to providing additional resources for Disabled Facility Grants and to re-instating the Housing Capital Receipts Reserve when further capital resources are generated.

1.11 That a full Contingency Plan is drawn up should insufficient capital or other resources be generated to meet all outstanding capital commitments and that this is reported to the Committee by October 2010.

1.12 That the decisions made in recommendations 1.1 to 1.11 are used as the basis for consultation with local residents, businesses, voluntary and community groups, etc. and are subject to review by the Overview and Scrutiny Committee.

## 2.0 Purpose of the Report

2.1 To detail the Council's overall financial position for the 2010/11 budget round. Essentially, it builds on the financial plan and strategy approved in September and October 2009. The report covers the following:

- The Council's current spending and proposed base budget position for 2010/11.
- The General Fund's 5-year financial projection including proposed spending by policy committees and associated analysis to 2014/15, which forms the Medium Term Financial Plan (MTFP).
- The proposed council tax base and collection fund position.
- A review and update of the existing capital investment programme and financing available.
- Proposals for meeting the projected budget deficit in 2011/12 and shortfall in capital financing to 2015.

## 3.0 Executive Summary and Overall Commentary

### General Fund

3.1 Following on from a review of the MTFP reported to the Committee in September 2009, the Council's overall financial position on its General Fund is projected to remain in deficit over the 5-year planning period to 2015.

3.2 Indeed the overall position is forecast to deteriorate further following the review of current income and expenditure for 2009/10 and the proposed base budget for 2010/11.

**Critical Year 2011/12**

3.3 The critical year remains 2011/12. This is the point that general reserves fall well below the safe minimum level. Therefore, by October 2010, the Council will need to identify cashable efficiency savings of approximately **£375,000 per year** (up from £317,000 in September 2009) in order to meet the longer-term budget deficit and to protect the minimum level of general reserves.

**The Need to Identify Capital Resources**

3.4 In addition, there is a further issue still pending; that is the need to identify capital resources to meet outstanding commitments for covenant repayments, vehicle replacements and contributions to Disabled Facility Grants (DFGs) over the next 5-years.

3.5 Of these, the covenant repayments are obligatory and the DFGs statutory. The Council does have discretion over vehicles in that the replacement programme can be changed.

3.6 Currently, a provision remains, totaling approximately £1.95m, to meet these commitments from general reserves (as a revenue contribution).

3.7 If the use of general reserves are required, this would leave reserves **well below** the minimum level by 2012/13 and negative by 2014/15, even if savings of £375,000 per year are achieved.

**The Main Issue**

3.8 This continues to be a reduction in the Council's income base - building regulations and land charges in particular.

3.9 Although the Council has made further cashable efficiency savings during 2009/10, mainly through procurement, this has been offset by a reduction in income (not increases in expenditure) in the Base Budget for 2010/11, with cumulative effects estimated over the 5-year MTFP.

3.10 Clearly, an upturn in the economic situation should provide financial benefits to the Council through increased planning fees and interest on bank deposits, etc. However, this may prove too late for the Council's current financial position.

**The Effects of the National Financial Situation**

3.11 In addition, in the background is the 2010 Comprehensive Spending Review (CSR 10) – the Government's review of public expenditure, which will include future financial settlements for local government. Under current government proposals, this is expected to report in the autumn of 2010

3.12 CSR 10 has been preceded by the Government's Pre-Budget Report (December 2009), which sets out tough measures for public expenditure, pay and pensions from 2011/12.

3.13 Whatever Government is in office by this time, it is considered that future grant settlements in particular, will be severely limited and indeed may be cut in some instances. This is due to the fact there is a substantial budget deficit at a national level.

3.14 The MTFP has been revised to take account of the economic data included in the Pre-Budget Report, together with the Government's proposals regarding public sector pay and service priorities.

3.15 Based on this, the overall projection assumes the current downturn now continuing into 2010, with a recovery starting to have a noticeable impact by 2011/12.

**Action and Potential Opportunities**

3.16 Clearly, the Council's financial position continues to give cause for concern, although it should be noted that much of the impact is due to external factors. Nevertheless, the Council needs to continue to position itself in order to deal with the current financial situation and its longer-term impact.

3.17 The short-term position has become more critical and the need to make further efficiencies more acute. However, some actions already in place could generate resources to help remedy the situation and maintain the Council's finances on a sound and stable footing.

3.18 The issue here is that these resources are by no means guaranteed at this stage; they are subject to either on-going project work, negotiations with partners or decisions from central government. These factors are as follows:

- Restructure of Community Services
- Corporate Services Partnering Project
- On-going efficiency programme and income generation
- Heads of Service reviews
- Etwall Leisure Centre
- Concessionary Travel
- Disposal of Surplus Assets

**Restructure of Community Services**

3.19 The Committee considered this on 3rd December 2009. The proposals are currently subject to consultation through the Council's Change Management Procedure. If approved, the full restructure would save approximately £140,000 per year, some of which could be generated from 2010/11. Clearly, this is a sizeable proportion of the overall amount (£375,000) required.

**Corporate Services Partnering Project**

3.20 The Council is about to progress the final stage of procuring a private sector partner to deliver the Council's corporate support services. As part of the business plan, it is expected that cashable savings will be generated.

3.21 This is currently subject to commercial negotiations. Consequently, efficiency savings will not be confirmed until later in the year.

**Efficiency Programme**

3.22 In addition to the Council's own efficiency programme, the Council is also part of 2 projects reviewing the feasibility of joint working in the Pest Control and Building Regulation Services. This is being funded from the Regional Efficiency Programme (RIEP) that is managed by the County Council.

**Head of Service Reviews**

3.23 In line with Council priorities and how they fit into the Council's base budget, all Heads have outlined proposals to the Senior Management Team following a review of their service areas. Proposals to be progressed will be subject to a business case and reported to Committees during the year.

**Etwall Leisure Centre**

3.24 Income may be achieved from additional partner contributions for the new Etwall Leisure Centre. This is one area that has placed additional cost pressures on the Council since the summer of 2009 and is being monitored by the Housing and Community Services Committee.

**Concessionary Travel**

3.25 As previously reported, with effect from April 2008, the Council benefited from lower costs arising from the new National Bus Pass Scheme. In Derbyshire, this forced a reallocation of costs to represent a fairer share based on actual usage compared to eligible population, from which South Derbyshire gained.

3.26 However, the MTFP only shows this benefit accruing until March 2011. Based on Government proposals currently out for consultation, this is when it is expected that the responsibility for concessionary travel will pass to first tier authorities - the County Council in our case.

3.27 Consequently, the associated costs and funding will also transfer. There is a lot of uncertainty over how the Government will implement this. Their informal view is that the costs nationally are true and fully funded in total.

3.28 Therefore, there is likely to be a redistribution of government grant associated with concessionary travel to match up with total costs in each area. This has been undertaken to some extent for 2010/11 to reflect the allocation of costs across the Country. This will see the Council lose £75,000 in grant for next year.

3.29 If the responsibility is transferred, the Council will not meet the costs from 2011/12, but will also likely lose further grant - through the general revenue support grant settlement. Currently, a net cost of £800,000 has been maintained (prudently) in the MTFP. This effectively reflects the higher costs of the scheme prior to 2008.

3.30 If the revenue support grant loss is less than this, it will help the overall financial situation and the Council would then have an on-going benefit beyond 2011. Clearly, the amount involved is significant and could materially affect the overall financial position.

3.31 The caution is that indicative calculations within the consultation show South Derbyshire potentially being a net loser on redistribution. It is expected that the final outcome will also come out of CSR 10.

**Disposal of Surplus Assets**

3.32 As previously highlighted, there remains a high risk that the Council is unable to meet capital commitments over the current life of the MTFP and faces a funding shortfall of £1.9m

3.33 The position has slightly improved over the past year due to capital receipts from several small land disposals and from one or two council house sales. However, a significant receipt is required to alleviate the potential problem.

3.34 It is anticipated that the Council will continue to generate resources over the planning period from further disposals and council house sales. However, two significant regeneration and housing projects are currently being progressed, namely the sale and relocation of the main depot site, together with the sale of land in Church Gresley.

3.35 These projects have previously been approved by the Committee and are at various stages of completion. Update reports to recommend the next critical stages of both projects are due to be reported to the Committee's meeting on 25th January 2010.

3.36 Besides the regeneration and affordable housing benefits that these projects will deliver, they will also generate fairly significant capital receipts (subject to commercial negotiations). These sums could substantially address the capital position and consequently benefit the General Fund.

**Timing**

3.37 However, timing is critical. Current timescales indicate that these receipts will be received during 2011/12. In this case, the financial position would be much healthier in that general reserves would be maintained above the minimum level.

3.38 If they were not received until 2012/13, which is considered to be the worst-case scenario, then the level of general reserves would be well below the minimum for a year in 2011/12.

3.39 Other land disposals are also being assembled, but it is anticipated that further capital receipts will not be generated until 2012/13 at the earliest.

**Interim Strategy**

3.40 Therefore, given the issue of timing and the need to meet these capital commitments, the following strategy is recommended should insufficient resources be generated in time.

- That the amount remaining in the Housing Capital Receipts Reserve of £370,000 is now set-aside to meet the covenant repayments applicable to Housing.

- That no further contributions are made to Disabled Facility Grants beyond 2009/10.

3.41 When capital receipts or other resources are identified, it is then recommended that priority is given to reinstating contributions to DFGs and the Housing Capital Receipts Reserve

3.42 This strategy would provide approximately £700,000 towards the capital commitments, but still short of the £1.9m required in total. Therefore, the Council will need to draw up a full plan of action as a contingency to meet the overall shortfall.

**Risks**

3.43 Clearly, there are risks attached to this strategy as detailed in the report. This puts further pressure on meeting on-going demand for DFGs and in balancing the HRA in the longer-term.

**Finally - Using the Projection**

3.44 The above analysis is based on projecting current income and expenditure and modeling various assumptions, together with economic data relating to inflation and interest rates, etc. Provisions are made for known variations such as pension fund contributions and district growth, etc. in future years.

3.45 Factors will change. However, it is important that the Council uses this projection as a clear focus for the future and continues to keep spending on the General Fund under regular review and control.

## 4.0 Detail, Background and Budget Assumptions

**THE COUNCIL'S FINANCIAL SETTLEMENT 2010/11**

4.1 Back in January 2008, the Government announced the level of General (Formula) Grant for local authorities covering the 3-year financial years 2008/09 to 2010/11.

4.2 In December 2009, the Government confirmed this grant settlement for 2010/11 with no changes. The Council's increase is 2.4% for 2010/11 compared to the average increase for district councils across the country of 1.3%.

4.3 It should be noted that the Council is still “losing” grant of £197,000 per year through a contribution to protect other authorities (the Council is scaled back in a floor and ceilings mechanism). This is designed to guarantee a minimum increase to authorities that would potentially see a reduction in grant under the national funding formula.

4.4 It should be noted that technically, these figures are still provisional. They could change depending on any representations to the Government. The final settlement is due to be approved in Parliament by 31st January 2010.

**Future Increases – CSR 10**

4.5 The MTFP now assumes a cash limited grant at 2010/11 levels for the following 3-years, 2011/12, 2012/13 and 2013/14. This has been revised down from a 1% year on year increase.

4.6 Following the publication of the Pre-Budget Report and after liaison with other Derbyshire authorities, it is clear that growth in general grant for district councils is likely to be severely limited and indeed may be reduced.

4.7 South Derbyshire may be in a more favorable position compared to other authorities as a growth area. At this stage, the distribution of grant will be determined through CSR 10 where the next 3-year settlement will be set.

4.8 Given the national budget deficit, some areas of the public sector will face reductions in central government support. Therefore, it is considered more prudent to assume a standstill position at this stage. A moderate increase of 2% in 2014/15 has been assumed.

**Housing and Planning Delivery Grant (HPDG)**

4.9 HPDG was introduced in 2007 by the Government and was an extension of the previous Planning Delivery Grant. The aim of HPDG is to reward local authorities for improved delivery of housing and other planning services as part of their strategic, place shaping role.

4.10 It should be noted that the grant does not have to be used wholly for the benefit of the planning service. However, there is a strong expectation from central government that it is used to develop local planning and to deal with associated issues such as affordable housing and regeneration brought about through growth.

**Use of HPDG at the Council**

4.11 The grant is used in various ways - to provide specialist support, undertake studies, to provide investment/matched funding and to supplement core service provision due to pressure and demands in the planning service area.

Any unused allocation in one year can be carried forward for use in future years.

4.12 The MTFP assumes an annual allocation of £200,000. The Council received £315,000 in 2008/09 and £458,000 in 2009/10. The proposed expenditure for 2010/11 which has been considered by the Environmental and Development Committee is £220,000. This would leave £347,000 in the "planning reserve" by March 2011.

4.13 Of the £220,000 annual spend, approximately ¾ (£160,000) is used to fund on-going expenditure. Of this, £140,000 is in relation to staffing costs, the associated posts (4 in total) are mainstreamed posts on the Council's establishment.

### Future allocations

4.14 The national allocation for 2010/11 has provisionally been increased for the provision of new housing and this in principle should benefit the Council as a growth area. Looking to future years, as with all government funding, the allocation of HPDG from 2011/12 is very unclear. At this stage, it is likely to be reviewed as part of CSR 10.

4.15 The amount remaining in the planning reserve has been considered by the Environmental and Development Services Committee. They recommend that this should be maintained at this stage to provide some additional resources against the uncertainty and risks associated with planning such as:

- Further reductions in income
- An Inquiry into the Local Development Framework
- A reduction in HPDG from 2011/12.

## GENERAL FUND 5-YEAR FINANCIAL PROJECTION

4.16 This is calculated within a financial model the summary of which is shown in **Appendix 1;** headline figures are summarised in **Table 1** below. This includes proposed spending levels of the Council's main policy committees.

**Table 1 – General Fund Projection**

| YEAR | BUDGET DEFICIT £ | CAPITAL PROVISION £ | BALANCE OF RESERVES £ |
|---|---|---|---|
| 2009/10 | - 453,264 | 0 | + 2,347,746 |
| 2010/11 | - 484,229 | - 203,950 | + 1,659,567 |
| 2011/12 | - 577,310 | - 763,150 | + 319,107 |
| 2012/13 | - 345,362 | - 291,000 | -317,255 |
| 2013/14 | - 385,501 | - 376,000 | -1,078,755 |
| 2014/15 | -308,745 | - 316,000 | -1,703,501 |

**Note – the Capital Provision is to meet the outstanding capital commitments**

4.17 **Table 1** clearly shows that general reserves are projected to fall sharply over the next 5-years. Clearly however, it is now the short term position that has become much more acute, with current projections showing general reserves **well below** the safe minimum level of **£1m** by 2011/12.

4.18 This is due to the deficits in 2010/11 and 2011/12 increasing markedly compared to the previous projection. The cumulative deficit in **Table 1** totals in excess of £1m for the two years; previously this was £1/2m.

4.19 The main issue continues to be a reduction in the Council's income base from land charges, building regulations and planning fees in particular. These items alone increase the Council's base net expenditure by £334,000 between 2010 and 2012 compared to the previous projection.

4.20 Based on economic forecasts, the overall projection now assumes the current downturn continuing well into 2010, with a recovery starting to have a noticeable impact by sometime during 2011/12.

4.21 Within the overall projection, some anticipated future spending pressures in the form of higher pension contributions and the local pay and grading review in the form of pay protection, have been built in (based on best estimates). Provision has also been made in 2011/12 for local district elections.

4.22 In addition, the projection incorporates past measures such as efficiency savings, restructures, debt repayment and termination of leasing agreements.

4.23 Government grant as detailed earlier in the report has been incorporated. In addition, the projection continues to build in Council Tax increases (for district services) of 2.5% year on year from 2010/11.

**Inflation**

4.24 Inflation has not been allocated directly into service base budgets. Clearly, some base costs will be subject to inflation during the year and in some cases it will be "unavoidable," for example employee costs, when national pay increases are settled.

4.25 Allowances for inflation based on various assumptions regarding price increases, etc. have been calculated across the main spending heads and in total, will be held as a central contingency.

4.26 In line with current policy, it is proposed that the overall contingency for inflation will be reviewed and monitored by this Committee separately and allocated into service budgets, as the actual effects of inflation become known over the year, through the financial monitoring framework.

4.27 It should be noted that the contingency for inflation is only a provision and does not mean that costs will automatically increase by that amount. It is a prudent assessment at a particular point in time of what is likely to increase.

### Changes to Inflation Assumptions

4.28 The Government revised some of its key inflation assumptions in the 2009 Pre-Budget Report and these have been reflected in the updated MTFP. The main impact of inflation on the Council's budget is through national pay agreements, as this affects the largest cost to the Council.

### Pay Inflation

4.29 The Government have set strict public sector pay targets by proposing a maximum increase of 1% for 2011/12 and 2012/13 for most public sector workers. This is in addition to that already indicated for 2010/11, where a pay freeze in some quarters is being proposed.

4.30 Clearly, actual increases are subject to negotiation at a national level. The employee representatives have requested an increase of around 2% for 2010/11. Generally, the employers are looking to adhere to government policy and exercise pay restraint wherever possible.

4.31 This is in recognition of the pressure on budgets such as loss of income, potential reductions in grant funding, etc. and to reflect the general economic situation.

4.32 Based on this, the updated projection has been based on the assumptions as set out in **Table 2**.

**Table 2 – Assumed Pay Increases**

| Year | Assumption | Previous |
|---|---|---|
| 2010/11 | 1.25% | 2.00% |
| 2011/12 | 1.25% | 3.00% |
| 2012/13 | 2.00% | 3.00% |
| 2013/14 | 3.00% | 3.00% |
| 2014/15 | 3.00% | 3.00% |

4.33 The table shows that the assumptions have been hardened especially in 2010/11 and 2011/12. This is to reflect government targets based on the economic situation and the projections for public expenditure.

4.34 This does help the financial position as just a ¼% variance amounts to approximately £30,000 per year.

### Other Inflation

4.35 Most other budget heads have again been cash limited, except those in relation to fuel, utilities, maintenance, licences and contract agreements. This also applies to most fees, charges and reimbursements. Assumptions regarding general inflation are shown in Table 3.

**Table 3 – General Inflation**

| Year | Assumption | Previous |
|---|---|---|
| 2010/11 | 2.25% | 1.50% |
| 2011/12 | 1.50% | 2.00% |
| 2012/13 | 2.50% | 2.50% |
| 2013/14 | 2.75% | 2.50% |
| 2014/15 | 2.75% | 2.50% |

4.36 The inflation rate is based on the Gross Domestic Product (GDP) Deflator, the Government's general measure of inflation within the economy. **Table 3** shows that the assumptions regarding GDP have been revised in the Pre-Budget Report.

4.37 Economic indicators now project inflation increasing during 2010/11 due mainly to the ending of the temporary VAT rate cut and a rise in oil prices.

4.38 As the economy recovers, indicators suggest lower inflation during 2011/12 but then increasing again through 2012/13. The longer-term average rate is now projected at 2.75%.

### Grants to Voluntary Bodies and Concurrent Functions

4.39 In previous years, the Council has agreed to increase these payments by inflation as measured by the Retail Price Index (RPI) as at September of the preceding year. As at September 2009, RPI stood at **minus** 1.4%, and this is the indicator that would be used on this basis for 2010/11 increases.

4.40 As most of the costs incurred by voluntary bodies and parish councils under concurrent functions are broadly similar to that of the Council (staffing, energy, etc.) it would be practical to allow an increase in funding. Therefore, it is recommended that a provision of 1.5% is made for 2010/11.

### Total Inflation

4.41 The overall contingency for inflation and growth as used in the MTFP is therefore summarised in **Table 4.**

**Table 4 – Analysis of Overall Inflation Provision**

| | 2010/11 £'000 | 2011/12 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2014/15 £'000 |
|---|---|---|---|---|---|
| Pay | 131 | 135 | 216 | 328 | 338 |
| Other Costs | 76 | 59 | 100 | 116 | 119 |
| Fees and Charges | (1) | (86) | (146) | (165) | (169) |
| Growth | 44 | 56 | 68 | 69 | 70 |
| **TOTAL** | 250 | 164 | 238 | 348 | 358 |

<u>**Note**</u>

**Inflation applicable to fees and charges has been included direct in the base budget for 2010/11 following a review of fees and charges during the budget round.**

### Overall Comparison to the Previous Projection

4.42 The previous projection (as reported in September 2009) forecast a negative General Fund reserve balance of approximately £970,000 as at March 2015. As shown earlier in **Table 1**, this has increased to a negative balance of approximately £1.7m.

4.43 The main reasons for the reduction are summarised in **Table 5** below. The reasons for these changes have been considered by the other Policy Committees (including Finance) and elsewhere in this report.

**Table 5 –Analysis of Major Changes**

| **Cumulative 5-year effect** | £ |
|---|---|
| Projected 5-year Balance @ March 2015 (as it stood in Sept 09) | -970,995 |
| Changes in Government Grant Assumptions | -592,461 |
| Reduction in income from Land Charges (on-going from 11/12) | -360,000 |
| Reduction in Partner Contributions to Etwall Leisure Centre | -245,000 |
| Reduction in income from Planning (09/10 and 10/11) | -244,000 |
| Increase in costs of Concessionary Travel | -172,500 |
| Reduction in Housing Benefit Administration Grant | -130,000 |
| Increase in Benefit payments (SDDC contribution) | -86,000 |
| Reduction in Concessionary Travel Grant (2010/11 only) | -80,000 |
| Reduction in demand for the collection of Domestic Bulkies | -70,000 |
| Reduction in income from Cemeteries | -40,000 |
| Reduction in income from Pest Control | -37,500 |
| Increase in Employers National Insurance Rate from 2011/12 **(per the Pre-Budget Report)** | -32,822 |
| Reduction in inflation provision for pay | 971,109 |
| Reduction in energy costs for the Civic Offices | 125,000 |
| Savings on the procurement of protective clothing and stationery | 120,000 |
| Savings on energy costs at Green Bank Leisure Centre | 100,000 |
| Savings on transport costs | 65,000 |
| Savings on printing committee agendas and minutes | 35,000 |
| All other adjustments and changes (net) | -58,405 |
| **Revised Projected 5-year Balance @ March 2015** | **-1,703,574** |

### Income from Land Charges, Building Regulations and Planning Fees

4.44 As previously highlighted, income continues to fall, in particular from building regulations and land charges. The budget and future projections are shown in **Table 6**, below.

**Table 6**

| Analysis of income from planning applications, building regulations and land charges | Planning Fees | Building Regs. | Land Charges | Total | Total as at Sept 2009 |
|---|---|---|---|---|---|
| Budget 2009/10 | 531,000 | 255,000 | 130,000 | 916,000 | 916,000 |
| Projected Out-turn 2009/10 | 531,000 | 210,000 | 135,000 | 876,000 | 916,000 |
| Budget 2010/11 | 531,000 | 210,000 | 125,000 | 866,000 | 1,070,000 |
| Forecast 2011/12 | 590,000 | 340,000 | 130,000 | 1,060,000 | 1,150,000 |
| Forecast 2012/13 | 590,000 | 340,000 | 130,000 | 1,060,000 | 1,150,000 |
| Forecast 2013/14 | 590,000 | 340,000 | 130,000 | 1,060,000 | 1,150,000 |
| Forecast 2014/15 | 590,000 | 340,000 | 130,000 | 1,060,000 | 1,150,000 |

4.45 **Table 6** shows the amounts included in the latest General Fund projection compared to that in September 2009. The reduction in the projected out-turn for 2009/10 of £40,000 (£916k down to £876k) is due mainly to income from building regulations.

4.46 The reduction of £204,000 in 2010/11 (£1,070k down to £866k) is due to:

- Planning fees - £59,000
- Building Regulations - £90,000
- Land Charges - £55,000

4.47 It is clear that the previous projections for 2010/11 are now proving unrealistic and the revised figures reflect the current situation. From 2011/12, it is assumed that a brighter economic climate will increase fees from planning and building regulations and these projections remain the same.

**Land Charges**

4.48 The Economic and Development Services Committee has recommended that this Committee reduce the level of projected income on an on-going basis in the MTFP. This is the reason for the reduction of £90,000 per year in **Table 6** from 2011/12, compared to the previous projection in September 2009.

4.49 This is due to several issues. Firstly, recent changes to the conveyance process including the introduction of the Hips package, has seen the number of full searches conducted falling away and the Council has lost market share to the Personal Search Companies. This trend is continuing.

4.50 Therefore, it is considered that income levels will not recover to those previously seen before the current economic downturn. In addition, the Council can now only set its fees on a cost recovery basis.

4.51 Furthermore, the whole issue of fee levels and future income is very unclear. This largely stems from a decision taken by the Government's Information Commissioner Office.

4.52 The issue is around whether authorities are able to charge for providing data as part of a land/property search. The Commissioner has ruled that they should not although this is being challenged by the Local Government Association.

4.53 If ultimately the ruling is implemented, then this would cost the Council approximately **£40,000 per year** in loss of income.

**Interest payable and receivable**

4.54 In the review of the MTFP in September 2009, these assumptions regarding interest rates and interest received on short-term investments were substantially revised, with a reduction of £95,000 in the base budget for 2009/10. No further changes are proposed.

4.55 Budgets and projections for income receivable are shown in **Table 7**, below.

**Table 7**

| Year | Interest Received | Average Interest Rate |
|---|---|---|
| 2009/10 | £30,000 | 0.75% |
| 2010/11 | £60,000 | 1.50% |
| 2011/12 | £100,000 | 2.50% |
| 2012/13 | £140,000 | 3.50% |
| 2013/14 | £160,000 | 4.00% |
| 2014/15 | £190,000 | 4.75% |

**The Council Tax Base**

4.56 This relates to the number of chargeable properties for council tax. No changes to tax base projections are proposed at this stage.

4.57 The estimate for 2009/10 of 419 new properties is currently on target to be exceeded, with 503 being the latest estimate based on known figures. This is likely to produce a surplus on the Collection Fund for the year and this is detailed later in the report.

4.58 The assumptions for new properties built in for future years are based on the latest projections for planning purposes, as follows:

- 2011 – 450
- 2012 – 419
- 2013 – 386
- 2014 - 386

4.59 These figures could be exceeded depending on the effects of an economic recovery and the release of further sites for development, arising out of the Local Development Framework.

### Financial Risks and the Minimum Level of General Reserves

4.60 The previous sections clearly highlight that the Council faces many financial risks and variables, many of which are quite exceptional. Therefore, it needs to be prudent in ensuring that it maintains an adequate level of general reserves on its General Fund to act as a contingency.

4.61 The Local Government Act 2003, places the emphasis on each local authority to determine its minimum level of reserves, based on advice from the authority's Section 151 (Chief Finance) Officer. This will depend on local circumstances and the minimum level should be reviewed on a regular basis.

4.62 Based on this, the Council's minimum level as set out in the Financial Strategy is **£1m** on the General Fund. This level is calculated based on an assessment of the major financial risks facing the Council including major income streams, inflation and interest rates, all of which are detailed in previous sections of the report.

4.63 Based on the net revenue expenditure on the General Fund for 2010/11 of £12.6m, £1m is approximately 8%. By 2014/15, £1m will be around 7.5%.

### Sensitivity of the Major Variables

4.64 **Table 8** below, provides an indication of the sensitivity of the major assumptions relating to the main economic indicators in the projection. This is in addition to any changes for market conditions or volumes. The changes are the cumulative effects over 5-years.

**Table 8 (figures are in £'000)**

| | |
|---|---:|
| Pay Inflation –1% change in one year | 550 |
| Pension contributions – 1% change in one year | 200 |
| General Inflation on other costs – 1% average change | 55 |
| Fees and Charges – 1% average change | 75 |
| Interest Rate on short-term investments – 1% change year on year | 225 |
| Government Grant – 1% change in one year (over 4-years only) | 300 |
| Tax Base – 50 extra properties (above those in the projection) | 40 |
| Council Tax Rate – 1% change in one year | 250 |

### Pensions

4.65 The Actuary for the County's Pension Scheme will undertake a triennial review in 2010. In anticipation of the Council's liabilities increasing, this plan continues to provide for an increase in the Council's pension costs from 2011/12 of approximately £80,000 per year. This equates to an increase of 1% on pensionable pay.

4.66 Due to the current state of the financial markets and in particular falling asset values and rising liabilities due to greater life expectancies increasing, the longer-term deficit on the Fund is likely to grow. Initial indications on the effect of recent changes from additional employee contributions and the dampening of future benefits do not seem to be offsetting the increasing liabilities.

4.67 However, it is considered that the actual impact on the Council will depend upon how much the Government is willing to ask public sector employers and ultimately taxpayers, to contribute to pensions, especially in the current economic climate.

4.68 Indeed the Pre-Budget report set out a major policy to reform public service pensions to save £1bn a year from 2012/13.

**Other Risks, Cost Pressures and Opportunities**

4.69 The Council's Policy Committees (including a separate report to this Committee) has considered in detail their particular service budgets. This included potential cost pressures, risks and opportunities.

4.70 This consolidated report has incorporated these factors. Other potential issues that could affect the financial position are summarised in **Table 9**, below.

**Table 9**

| BUDGET AREA | NOTE |
|---|---|
| **Fuel and Vehicle Maintenance Costs** | Following a recommendation by this Committee in December 2009, future maintenance costs are due to be reviewed and aligned to the vehicle replacement schedule. This may lead to further savings in future years, over and above that included in the proposed base budget for 2010/11. |
| **The New Etwall Leisure Centre** | Additional on-going costs are estimated at £25,000 per year, although this may be mitigated by additional partner contributions. These contributions are not included in the base budget figures at this stage as they are still being confirmed. |
| **Swadlincote Woodlands** | Based on current spending, the Reserve used to fund spending will run out after 2010/11. No provision is currently in the Council's overall base budget to provide for these costs, which total about £50,000 per year. |
| **Green Bank Leisure Centre** | The Council has submitted a capital bid through the Government's Free Swimming Modernisation Programme to completely refurbish changing facilities at the Centre.<br>A possible drawback to this, if successful, is that it will involve the closure of the current swimming facility for approximately 4 months, whilst work is undertaken. This could involve the Council incurring additional one-off costs under the terms of the leisure centre contract. Initial options to mitigate this are being considered. |
| **Business Rates Revaluation** | The revised valuations for non-domestic properties (including council owned buildings) that are due to be implemented on 1st April 2010 have now been released. Overall, it is not anticipated that there will be additional cost implications for the Council and there may well be a reduction, in particular on the Civic Offices. Specific amounts are still being confirmed with the Valuation Office. |

| | |
|---|---|
| **Boundary Commission Review** | The Council's ward boundaries and democratic representation are currently being reviewed. This could entail additional costs for the Council from an increase in elected members due to the growth of the District from 2011/12. |
| **Electoral Registration** | Proposals currently out for consultation, may change electoral registration requirements. Currently, one canvass is required for each household; the main proposal is to change this to every individual at each address. This would lead to additional costs through printing, postage, canvassers fees and administration, etc. |

### The Council's Efficiency Programme

4.71 Given the tightening financial position, it is vital that the Council continues to find efficiencies through its business improvement and procurement programmes, including the series of service reviews.

4.72 In accordance with the Financial Strategy, only those cashable efficiencies actually achieved to-date have been included in the forward plan. The Council's efficiency programme including progress will continue to be reported to the Committee as part of the performance management framework.

## MEETING THE BUDGET DEFICIT AND BALANCING THE MTFP

4.73 **Table 1** previously highlighted a projected budget deficit of £308,000 in 2014/15. Based on the assumptions in the projection, the financial model calculates savings of **£375,000** per year will need to be made **from 2011/12** in order to deliver a balanced budget in the longer-term. The effect of this is shown in **Table 10**.

**Table 10**

| YEAR | PROJECTED BUDGET DEFICIT £ | EFFICIENCY SAVINGS £ | CAPITAL PROVISION £ | REVISED RESERVES £ |
|---|---|---|---|---|
| 2009/10 | - 453,264 | 0 | 0 | + 2,347,746 |
| 2010/11 | - 484,250 | 0 | - 203,950 | + 1,659,546 |
| 2011/12 | - 577,317 | + 375,000 | - 763,150 | + 694,079 |
| 2012/13 | - 345,369 | + 375,000 | - 291,000 | + 432,710 |
| 2013/14 | - 385,516 | + 375,000 | - 376,000 | + 46,194 |
| 2014/15 | - 308,768 | + 375,000 | - 316,000 | - 203,574 |

4.74 Although this level of savings would produce a budget surplus by 2014/15 (as the efficiency savings are greater than the projected deficit) based on the current profile of spending, reserves would still be below the safe minimum level by 2011/12 and still negative by 2014/15.

4.75 Clearly, this is due to the capital provision of £1.95m over the current life of the MTFP; **this is without doubt a critical factor for the Council's overall financial position in the medium-term.** If resources are not generated to meet the outstanding commitments, which in the main are unavoidable, then more substantial savings would need to be made in the General Fund.

### Meeting the Capital Commitments

4.76 In summary these are shown in **Table 11**, below.

**Table 11**

| | 2010/11 £'000 | 2011/12 £'000 | 2012/13 £'000 | 2013/14 £'000 | 2014/15 £'000 |
|---|---|---|---|---|---|
| Covenants | 400 | 472 | 0 | 0 | 0 |
| Vehicle Replacements | 225 | 225 | 225 | 250 | 250 |
| Contributions to DFGs | 66 | 66 | 66 | 66 | 66 |
| Statutory Housing Needs Survey | 0 | 0 | 0 | 60 | 0 |
| Less - Capital Receipts in reserve | (487) | 0 | 0 | 0 | 0 |
| **TOTAL** | 204 | 763 | 291 | 376 | 316 |

### Covenant Repayments

4.77 The covenants are subject to legal agreements, the repayment schedule is fixed and they cannot be readily re-financed. Clearly, the next 2 years see the final repayments.

### Housing Repayments

4.78 Of the £872,000 due in total for 2010/11 and 2011/12 combined, £720,000 is in respect of council houses. It should be noted that the "windfall capital receipts" reserve which has to be spent on housing schemes, has a balance of £370,000 remaining.

4.79 This has been set-aside as a contingency for the Housing Revenue Account (£300,000) and to improve garage sites (£70,000).

### Vehicle Replacements

4.80 Vehicle replacements are in the form of annual contributions to the Asset Replacement Reserve from which vehicles and plant are purchased in accordance with a replacement schedule; replacements vary from year to year.

4.81 Annual contributions even out costs between years, whilst keeping adequate funds in the reserve to provide flexibility and meet all requirements over time. Replacements can be delayed and sometimes this is the case.

4.82 However, this can impact on service delivery and needs to be balanced against increased repair and maintenance by extending the use of refuse freighters for example, beyond their use life.

4.83 Vehicles can be leased, hired, rented or the cost met through borrowing. However, these are still ultimately revenue costs and direct purchase is still considered to be the most cost effective method; it also provides benefits from ownership of the asset.

**Disabled Facility Grants (DFGs)**

4.84 These are annual contributions to top up government allocations. Meeting all demand for DFGs continues to be an issue with pressure on resources to deliver, but it does remain a statutory obligation.

4.85 Funding allocations from central government beyond 2009/10 have not yet been announced. If no Council contribution were made beyond 2009/10 this would reduce the requirement on the "capital provision" by £330,000 over the 5-year MTFP.

**Identifying Capital Resources - Disposal of Surplus Assets**

4.86 The Council needs to generate capital receipts. The position has slightly improved over the past year due to capital receipts from several small land disposals and from one or two council house sales. However, a significant receipt is required to alleviate the potential problem.

4.87 It is anticipated that the Council will continue to generate resources over the planning period from further disposals and council house sales. However, two significant regeneration and housing projects are currently being progressed, namely the sale and relocation of the main depot site, together with the sale of land in Church Gresley.

4.88 These projects have previously been approved by the Committee and are at various stages of completion. Update reports to recommend the next critical stages of both projects are due to be reported to the Committee's meeting on 25th January 2010.

4.89 Besides the regeneration and affordable housing benefits that these projects will deliver, they will also generate fairly significant capital receipts (subject to commercial negotiations). The sums involved could substantially address the capital position and consequently benefit the General Fund.

**Timing**

4.90 However, timing is critical. Current timescales indicate that these receipts will be received during 2011/12. In this case, the financial position would be much healthier in that general reserves would be maintained well above the minimum level, even by 2014/15.

4.91 If they were not received until 2012/13, which is considered to be the worst-case scenario, then the level of general reserves would be well below the minimum for a year in 2011/12, but the position beyond this would be much healthier.

4.92 Other land disposals are also being assembled, but it is anticipated that further capital receipts will not be generated until 2012/13 at the earliest.

**Interim Strategy**

4.93 Therefore, given the issue of timing and the need to meet these capital commitments, the following strategy is recommended should insufficient resources be generated in time.

- That the amount remaining in the Housing Capital Receipts Reserve of £370,000 is now set-aside to meet the covenant repayments applicable to Housing.

- That no further contributions are made to Disabled Facility Grants beyond 2009/10.

4.94 When capital receipts or other resources are identified, it is then recommended that priority is given to reinstating contributions to DFGs and the Housing Capital Receipts Reserve

4.95 This strategy would provide approximately £700,000 towards the capital commitments, but still short of the £1.9m required in total. Therefore, the Council will need to draw up a full plan of action as a contingency should the shortfall continue.

**Risks**

4.96 Clearly, there are risks attached to this strategy. Regarding DFGs, there is a statutory obligation to meet demand which is currently estimated at £800,000, well in excess of funding available.

4.97 As regards the HRA, there is still a longer-term issue in that by 2017, the HRA's General reserve falls below the safe minimum level of £1/2m. From next year, the HRA will start to operate in deficit (based on current projections).

4.98 In addition, the latest stock condition survey for Council Houses identifies a potential £12m shortfall in capital resources to maintain the stock in the longer-term. It is considered that this will place pressure on meeting the Decent Homes Standard beyond 2012/13.

## COUNCIL TAX

### Council Tax Base

4.99 Regulations under the Local Government Finance Act (1992) require each billing authority to calculate its tax base for the forthcoming fiscal year. This is the amount that the actual council tax levels are based upon.

4.100 It reflects the number of properties in each area/parish within the District, adjusted for exemptions and discounts. This is known as the “relevant amount.”

4.101 The tax base as calculated for 2010/11 is summarised in **Appendix 2**. As usual, this assumes a collection rate of 99% and is based on the number of properties (by Parish/Area) as at 5th January 2010.

4.102 The calculation shows a total tax base for 2010/11 of 31,144.4. This is an increase of 1.64% compared to 2009/10 and this has been used to calculate the amount of income from council tax in 2010/11 included in these budget proposals.

### Collection Fund Surplus/Deficit

4.103 In addition, in setting the level of council tax for 2010/11, the Council is also required to calculate the estimated balance on its Collection Fund for the current year, 2009/10.

4.104 The Collection Fund is a separate ring-fenced account. It records all income collected from council tax and business rates and the money paid out to other authorities who precept on the Fund, together with payments to the national business rate pool.

4.105 The account in principle should balance each year. However, not all council is collected, circumstances such as the number of houses subject to tax and people receiving benefit, change during the year. In addition, final collection rates from previous years may be higher than estimated.

4.106 These factors inevitably provide a balance at the end of each year. This is not available for spending (if a surplus) or needs to be made good by the Council (if in deficit). Any balance is adjusted through the level of council tax levied in the following year, although at individual level this may be fairly small. The County Council as the major preceptor on the Fund picks up the majority of any adjustment.

4.107 The estimated position on the Collection Fund for 2009/10 is summarised in **Appendix 3**. The overall balance is distributed to the major precepting authorities on the Fund, i.e. this Council, Derbyshire County, Police and Fire Authorities in proportion to their precepts on the Fund.

4.108 It should be noted that Parish councils do not get a share of any balance on the Fund as they are categorised as local (and not major) preceptors under the Local Government Finance Act (1992).

4.109 **Appendix 3** shows an estimated surplus balance on the Collection Fund as at 31st March 2010 of approximately **£665,000**. In accordance with the prescribed formula, this is shared as follows:

- Derbyshire County Council - £486,000
- Derbyshire Police Authority - £74,000
- Derbyshire Fire Authority - £30,000
- South Derbyshire District Council - £75,000

4.110 This balance is far better than expected and is due to a greater number of properties being liable for council tax, together with better collection rates (of arrears) from previous years, reflecting improved recovery action.

### Council Tax Levels

4.111 As highlighted earlier, the projection has built in Council Tax increases (for District services) of 2.5% per year. A 1% variance in this rate in one year (excluding the effects of a changing tax base), equals approximately £250,000 over 5-years.

4.112 In announcing the financial settlement for 2010/11, the Parliamentary Under-Secretary of State for Communities and Local Government said:

> "I am pleased that the average band D council tax increase this year was 3.0%. The Government expects to see it fall further next year while authorities protect and improve front line services.
>
> We expect the average Band D council tax increase in England to fall to a 16 Year low in 2010-11. We remain prepared to take capping action against excessive increases set by individual authorities and requiring them to rebill for a lower council tax if necessary."

## CAPITAL INVESTMENT and FINANCING

4.113 The Council is guided under a National Prudential Code to set a 5-year capital investment programme. Clearly, this has to be based on assumptions about likely resources to be available and potential commitments facing the Council over this period.

4.114 The Council's current approved spending and financing programme to 2014/15 is detailed in **Appendix 4**.

### The Current Investment Programme

4.115 Despite the lack of its own resources, the Council still has a fairly substantial capital programme over the next two years. This is due to the successful generation of external funding through local development agencies, growth point and via partnership working.

4.116 This continues to fund substantial projects in community and recreational facilities across the District, together with improvements to Swadlincote Town Centre in particular.

**Housing Investment**

4.117 The Council has been allocated a Major Repairs Allowance (subject to consultation) of **£1,914,922** for 2010/11, an increase of approximately £19,000 (1%) over 2009/10.This is to continue the work of major improvements to council houses.

4.118 Government allocations for DFGs and for meeting "Decent Homes" in the private sector are still awaited for 2010/11. Pressure on DFG budgets and a potential shortfall in resources for the public housing stock have previously been highlighted in the report.

**Other Investment**

4.119 No further schemes are proposed this stage. A bid to secure capital resources through the Government's Free Swimming Modernisation Programme is currently being worked up. This follows a feasibility study that successfully supported the bid through the initial stages.

4.120 The bid is based on a project to completely refurbish changing facilities at Green Bank Leisure Centre.

4.121 In accordance with the Council's Capital Investment Strategy, any proposed bids (including those externally funded) will be subject to options appraisal and reported to the Council for consideration.

## 5.0 Financial Implications

5.1 As detailed in the report.

## 6.0 Corporate Implications

6.1 There are no other direct legal, personnel or property implications apart from that considered in the report.

## 7.0 Community Implications

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

## 8.0 Conclusions

8.1 The Committee is requested to consider carefully the income and expenditure proposals for the Council in the light of its overall financial position, including the interim strategy to meet capital commitments, together with generating sufficient efficiency savings on the General Fund by 2011/12.

## 9.0 Background Papers

9.1 The Government's Pre-Budget Report (December 2009), available at: http://www.hm-treasury.gov.uk/prebud_pbr09_repindex.htm

9.2 The Government's Financial Settlement for 2010/11, available at: http://www.local.communities.gov.uk/finance/1011/grant.htm